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AUDIT AND SCRUTINY COMMITTEE MONDAY, 25TH SEPTEMBER, 2017

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 25 SEPTEMBER 2017 at 10.15 am

There will be an Informal Briefing Seminar for all Members at 9.30 am in the Council Chamber on Borrowing and Treasury Management in Councils.

J. J. WILKINSON, Clerk to the Council,

18 September 2017

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	AUDIT BUSINESS	
5.	Minute. (Pages 1 - 26)	5 mins
	Minute of Meeting of the Audit and Scrutiny Committee held on 28 June 2017 to be approved and signed by the Chairman. (Copy attached.)	
6.	Risk Management in Services.	30 mins
	Presentation by Executive Director (Commercial) on the strategic risks facing the service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation.)	
7.	Annual Treasury Management Report 2016/17. (Pages 27 - 48)	15 mins
	Consider annual report by Chief Financial Officer on the Council's Treasury Management activities undertaken during financial year 2016/17 for review and scrutiny prior to Council approval. (Copy attached.)	
8.	Scottish Borders Council Final Reports and Accounts 2016/17:-	20 mins
	(a) Scottish Borders Council Annual Audit Report (Pages 49 - 2016/17.	

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10.	Internal Audit Work to August 2017. (Pages 575 - 586)	15 mins
	Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2017/18. (Copy attached.)	
11.	Any Other Audit Items Previously Circulated.	
12.	Any Other Audit Items which the Chairman Decides are Urgent.	
13.	SCRUTINY BUSINESS	
14.	Scrutiny Review Programme.	5 mins
	Consider report by the Chief Executive. (To follow)	
15.	Any Other Scrutiny Items Previously Circulated.	
16.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	

NOTES

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

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

Please direct any enquiries to Judith Turnbull 01835 826556 Email: judith.turnbull@scotborders.gov.uk



Public Document Pack Agenda Item 5

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on Wednesday, 28 June 2017 at 10.15 am

Present:- Councillors S Bell (Chairman), H Anderson, S Hamilton (Vice-Chairman),

N Richards, H Scott and E Thornton-Nicol.

Apologies:- Councillors K Chapman, J A Fullarton and R Tatler. Mr M Middlemiss.

Chief Financial Officer, Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer (P Bolson); Mr A Haseeb – Audit Scotland.

1. WELCOME

The Chairman welcomed those present to the first meeting of the Audit and Scrutiny Committee.

AUDIT BUSINESS

MINUTE

There had been circulated copies of the Minute of 28 March 2017.

DECISION

NOTED for signature by the Chairman.

3. SCOTTISH BORDERS COUNCIL LOCAL SCRUTINY PLAN 2017/18

- 3.1 With reference to paragraph 3 of the Minute of 9 May 2016, there had been circulated copies of a report by Audit Scotland setting out its Local Scrutiny Plan 2017/18 for Scottish Borders Council. The Plan was based on a shared risk assessment undertaken by a Local Area Network (LAN) comprising representatives of all the scrutiny bodies that engaged with the Council. This shared risk assessment process drew on a range of evidence with the aim of determining any scrutiny activity required and then focusing this in the most appropriate way. The report only identified risks within the Council which had been identified by the LAN where scrutiny was required or where scrutiny was planned as part of a national programme. Planned scrutiny activity informed the National Scrutiny Plan for 2017/18. This had also been circulated for information and was available on the Audit Scotland website.
- The report indicated that there was no specific additional scrutiny work required within 3.2 Education beyond ongoing inspection and support activity provided to the Council by Education Scotland. With regard to Housing and Homelessness, the Scottish Housing Regulator (SHR) had reviewed the performance of all Scottish Social Landlords in March 2016 and some recommendations were made in relation to repeat recording and closure of cases. Scottish Borders Council had acted on these recommendations and was now implementing its improvement plan for the service generally, with some actions being carried forward to 2017/18. In addition, the Council was reviewing the management arrangements for its gypsy/traveller site to ensure that the requirements of the Scottish Social Housing Charter were met. Under Social Care, the Integration Joint Board (IJB) had been established in February 2016 to assume delegated authority for the provision of health and social care services in the area. Governance arrangements were in place and the IJB's strategic plan outlined the work of the partnership and the way in which services would develop over the next three to five years. Further arrangements were in place to progress locality planning. A joint inspection of Children's Services was published in June Page 1

2016 and of the nine quality indicators assessed, one was evaluated as "very good", four as "good" and the remaining four as "adequate". SB Cares was also assessed during 2015/16 and evaluations of "adequate" and "good" were awarded. The final joint inspection report on Older People's Services was due to be published later in 2017. Audit Scotland would continue to monitor the effectiveness of the ICT arrangements established in October 2016 under the Digital Transformation Programme and would comment in its Annual Audit Report. Mr Haseeb advised that following a review by the Scottish Borders Community Planning Partnership (CPP) Strategic Board of its governance arrangements, it had been agreed that a CPP Consultative Group be established to develop the strategic direction of the Partnership, with the Strategic Board remaining as the decision-making group for the CPP. A review of these arrangements would be undertaken after 18 months and in the meantime, work continued to develop locality plans the Local Outcomes Improvement Plan as required under the Community Empowerment (Scotland) Act 2015. Audit Scotland would continue to monitor progress during the year.

3.3 Mr Haseeb explained that a new approach to auditing Best Value had been agreed by the Accounts Commission in June 2016. Best Value would now be assessed over the five year audit appointment and a Best Value Assurance Report would be considered by the Accounts Commission at least once during this time. Appendix 1 to the report detailed the scrutiny activity planned for 2017/18 and was available on the Audit Scotland website.

DECISION NOTED the report.

4. EXTERNAL AUDIT INTERIM MANAGEMENT REPORT 2016/17

With reference to paragraph 8 of the Minute of 29 March 2016, there had been circulated copies of an Interim Management Report by Audit Scotland for the year 2016/17. The report summarised the key issues identified during the year and included testing key controls within the Council's financial systems to gain assurance over the processes and systems used in the preparation of financial statements. In addition, Audit Scotland had reviewed the Council's approach to financial planning, with further work planned on financial governance and transparency. The findings would be detailed in the Audit Scotland Annual Audit report. Mr Haseeb advised that two recommendations had been made: regular bank reconciliations being carried out; and the storage and inclusion of adequate supporting documentation for journal entries. Mr Haseeb confirmed that Audit Scotland was satisfied with the Management response for both recommendations. Officers clarified a number of points raised by Members and Mr Haseeb confirmed the way in which the transfer of data from the present financial system to Business World would continue to be monitored by Audit Scotland.

DECISION NOTED the report.

5. FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER

With reference to paragraph 6 of the Minute of 28 June 2016, there had been circulated 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. It also 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. Audit Scotland also commented on some areas for improvement. In light of the key messages, a list of questions had been 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. Ms Stacey noted that membership of the new Audit and Scrutiny Committee included a number of newly appointed Elected Members and it was anticipated that these questions would be useful in considering the accounts and annual

audit report at future meetings. Discussion followed in relation to the quality of the management commentary included in reports and Mr Robertson advised that SBC compared very favourably across Scottish Councils. Members agreed that the publication was useful as a reference document for future use. Ms Stacey also explained how the Audit Self-Evaluation questionnaire was used by the Committee to ensure that Members were appropriately supported for carrying out their role.

DECISION

- (a) NOTED the report.
- (b) AGREED that the Committee would use the questions in Appendix 1 of the report as a checklist when considering the Final Accounts at the September meeting.

6. SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2016/17

- 6.1 With reference to paragraph 7 of the Minute of 28 June 2016, there had been circulated copies of a report and associated papers by the Chief Financial Officer on the draft Annual Report and Accounts for Scottish Borders Council, Common Good Funds, Charitable Trusts, Bridge Homes LLP, SB Supports LLP and SB Cares LLP. The report provided the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Annual Reports and Accounts for the year ended 31 March 2017 for Scottish Borders Council and associated Group Accounts prior to submission for External Audit Inspection by the statutory deadline of 30 June 2017. The report referred to the protocols and timeline associated with the overview of accounts as set out in the Local Authority Accounts (Scotland) Regulations 2014. In addition, Section 12 of the Local Government in Scotland Act 2003 required annual accounts to be prepared in accordance with proper accounting practice, primarily comprising the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17 supported by International Financial Reporting Standards (IFRS). Following audit and a public inspection period the finalised Audit report and Audited Accounts would be presented to the Audit and Scrutiny Committee for approval in September 2017 prior to consideration by Council.
- 6.2 Mr Robertson summarised the draft Unaudited Annual Accounts for the year to 31 March 2017 for Scottish Borders Council and advised Members that the revenue out-turn showed £0.128m underspend. Financial Plan Savings of £8.96m had been achieved representing 73% on a permanent, recurring basis. 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 £1.25m. The report explained that in 2016/17, turnover was £18.3m, an increase of £4m (28%). 28% of the total turnover was generated by external work and this was £0.057m down on the previous year. Mr Robertson explained the Statutory Accounting Adjustments and noted that the net impact on the General Fund Balances of these adjustments was broadly neutral with no effect on Council taxpayers. He further explained that the Balance Sheet showed that net assets of the Council excluding Pensions Liabilities were £213.8m at 31 March 2017. Pensions Liabilities for vear ending 31 March 2017 totalled £216m which was an increase of £74.4m from the previous year. Included in the current liabilities was a provision of £4m for decommissioning of landfill sites. With regard to 2016/17 capital outturns, there had been a total expenditure of £51.5m with timing movement of £7.5m and underspend of £0.3m. Efficiencies of 27% were still required and Management continued to explore ways to achieve this on a permanent, recurring basis.
- 6.3 With reference to the Common Good and Trust Annual Report and Accounts for year ended 31 March 2017, these had been circulated and Mr Robertson highlighted the key points as detailed in the report and Appendices. With regard to the nine Common Good Funds, the total net assets for the year were £13.746m, a reduction of £149k from the previous year, and fixed assets were £10.7m. With regard to the six SBC Trust Funds, Mr

Robertson explained that each was a Registered Charity and was reported separately in terms of the Unaudited Annual Reports and Accounts for 2016/17. The Total Net Assets across the six Funds was £4.0m, with Fixed Assets of £1.8m. Mr Robertson explained that in addition to those mentioned, there were a further 177 Trusts which were not registered at this time. In response to a question, Mr Robertson advised that work was ongoing at the moment to look at how these additional 177 Trusts could be correctly closed, consolidated and relocated within the appropriate SBC Charity. Consultation within the local communities would be required and the process was likely to take some time to complete. Progress would be reported in due course. The financial statements for Bridge Homes LLP for the year ended 31 March 2017 showed a Property value of £5.4m for 45 units, which was funded by the SBC loan of £4.6m and £0.8m from Affordable Housing Contribution. The Accounts showed a 3rd year trading profit of £0.021m. With reference to Scottish Borders Supports LLP and SB Cares LLP, the financial statements for each were detailed in the Appendices to the report and it was noted that £0.647m of surplus from SB Cares was returned to SBC. Discussion followed and Mr Robertson answered questions in relation to the points raised by Members. It was also noted that Councillor Weatherston's name had been incorrectly recorded within the Common Good Funds' and Charitable Trusts' Annual Reports and Accounts. Mr Robertson would amend the reports as appropriate prior to submission to the External Auditors.

DECISION

- (a) NOTED the Draft Annual Report and Accounts 2016/17 for Scottish Borders Council and associated Group Accounts; and
- (b) AGREED to support their submission, subject to minor amendments as discussed at the meeting, for review by the External Auditors, Audit Scotland.

7. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2016/17

With reference to paragraph 8 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Financial Officer providing an opportunity for the Audit and Scrutiny Committee to scrutinise the draft Scottish Borders Council Pension Fund Annual Report and Accounts for the year ended 31 March 2017 prior to its submission to the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations specified a number of elements that must be contained within the Annual Report and Accounts and these were detailed in the report. The Report and Accounts, which met these requirements, was attached as an Appendix to the report. The Annual Report and Accounts would be made available for public inspection for a 3 week period commencing 30 June 2017. Following Audit sign-off, the final Report and Accounts would be circulated to the joint Pension Fund Committee and Board, and then to Audit and Scrutiny Committee. Mr Robertson highlighted the main points of the Report, noting the continually growing governance agenda and increasingly complex pension administration environment within which the Fund operated. He advised Members that the Fund had, and continued to, perform well and that joint meetings of the Committee and Board continued to be productive and informative due to the positive engagement of out-going and newly appointed Members. Also during the past year the Investment and Performance Sub-Committee had met twice with all investment managers, allowing full scrutiny of the managed Funds to take place. The report noted that a strong market recovery and strong performance from key Fund Managers had contributed to the success of the Fund during 2016/17. Despite the level of volatility across markets during 2016/17, the Fund had managed to increase in value by £112m during the year. The overall performance of the Fund was 21.5% for the year, outperforming the benchmark by 1.0%. Other developments included the appointment of three new Fund Managers to the Fund following completion of the Strategic Asset Allocation; an agreement reached with Lothian Pension Fund that allowed access to the infrastructure market; and ongoing work continued in relation to modelling the cashflow position. In response to a question, Mr Robertson clarified the status of membership organisations and admitted bodies.

DECISION

- (a) NOTED the Draft Annual Report and Accounts 2016/17 for Scottish Borders Council Pension Fund; and
- (b) AGREED to support its submission for review by the External Auditors.

ADJOURNMENT

The Committee adjourned at 11.55am and reconvened at 12.05pm

8. SCOTTISH BORDERS COUNCIL'S LOCAL CODE OF CORPORATE GOVERNANCE

- With reference to paragraph 4 of the Minute of 9 May 2016, there had been circulated 8.1 copies of a report by the Chief Executive, seeking agreement for the revised Local Code of Corporate Governance of Scottish Borders Council to be presented to Council for approval. The report explained that Scottish Borders Council was responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded, properly accounted for, and used economically, efficiently and effectively. Corporate Governance was essentially to ensure openness, integrity and accountability across all aspects of Council business. The revised Local Code of Corporate Governance for the Council was consistent with the principles and requirements of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" and would help to ensure that proper arrangements continued to be in place for the Council to meet its responsibilities. Members were advised of the seven core principles of good governance and of the changes included in the revised Code, as detailed in the report. The Code should be seen as a "live" document and reviewed annually to ensure that it continued to meet the requirements of the changing Council environment and Best Value principles.
- 8.2 Officers responded to questions by Members. It was acknowledged that there had been a number of new Members elected in May 2017 and it was therefore agreed that a presentation on Corporate Governance and the Local Code be offered to all Members at a suitable time during 2017. A copy of the Local Code would also be circulated to the Chairs of the new Locality Committees for information.

DECISION

- * (a) AGREED TO RECOMMEND that Scottish Borders Council:-
 - (i) approves the revised Scottish Borders Council Local Code of Corporate Governance as detailed in Appendix 1 to the Minute; and
 - (ii) approves the revised Scottish Borders Council Local Code of Corporate Governance being relaunched to ensure greater awareness across the Council.
 - (b) AGREED:-
 - (i) to request that the Chief Executive and Service Directors consider compliance with the Scottish Borders Council Local Code of Corporate Governance as part of the annual assurance statements on internal control and governance and implement actions to ensure full compliance to the elements of the Code; and
 - (ii) that a presentation on the Scottish Borders Council Local Code of Corporate Governance be arranged for all Elected Members in due course.

9. INTERNAL AUDIT WORK TO JUNE 2017

- 9.1 With reference to paragraph 5 of the Minute of 28 March 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit, the recommended audit actions agreed by Management to improve internal controls and governance arrangements and an outline of the work of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). The work carried out by Internal Audit during the period from 3 April to 9 June 2017 was detailed in the report and it was noted that during the current period, a total of two final Internal Audit reports had been issued, namely: Corporate Transformation Programme; and Corporate and Social Work Complaints. Seven recommendations relating to these reports had been made and were accepted by Management. An executive summary of the final internal audit reports issued, including audit objectives, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in the Appendix to the report. The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period and which was detailed in the report.
- 9.2 In response to questions from Members, Ms Stacey advised that the Corporate Transformation Programme covered a wide range of Council business therefore each review was designed to cover one aspect of the Programme at any given time. With reference to Complaints Handling, it was noted that although excellent examples of good practice were found, the procedures were not applied consistently across all Council areas.
- 9.3 Further discussion took place relating to the Members' Induction session held on 20 June 2017 which included the role of the Audit Committee and that of the Scrutiny Committee. Ms Stacey also advised that Members would have an opportunity to assess their learning and development needs via Annual Self-Evaluation and confirmed that the first development session for Audit and Scrutiny Committee Members would be held within the Informal session on 25 September 2017 and would cover aspects of Treasury Management.

DECISION

- (a) NOTED:-
 - (i) the final assurance reports issued in the period from 3 April to 9 June 2017 associated with the delivery of the approved Internal Audit Annual Plan 2016/17; and
 - (ii) the Internal Audit consultancy and other work undertaken in the period.
- (b) ACKNOWLEDGED:-
 - (i) the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work; and
 - (ii) the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for Heads of Internal Audit.

Audit Business concluded at 12.35pm.

SCRUTINY BUSINESS

10. **SCRUTINY REVIEWS**

With reference to paragraph 3 of the Minute of the Scrutiny Committee of 23 March 2017, there had been circulated copies of a list detailing the work undertaken by the Committee since 2001/02 including Working Groups; Briefings; Hearings; Call-ins of Executive Committee decisions; and Notices of Concern. The Clerk to the Council, Ms Wilkinson, explained the various ways in which subjects could be brought forward to the Committee for consideration and the criteria used to determine how each would proceed. Members were advised of the need to develop a programme of Reviews for approval by full Council and that the Programme should include, where possible, cross-cutting service subjects across SBC. It was anticipated that a draft Programme of Reviews for Scrutiny would be presented to the August meeting of the Committee for consideration. Following discussion, a number of areas for Review were identified as detailed in Appendix 2 to the Minute.

DECISION

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- (a) NOTED the list of work undertaken by the Scrutiny Committee since 2001/02.
- (b) AGREED that a draft Programme of Reviews for Scrutiny be presented to the Committee in September 2017 for consideration.

11. PROPOSED DATES OF FUTURE MEETINGS.

There had been circulated copies of a list of proposed dates for meetings of the Audit and Scrutiny Committee and these were agreed as follows:-

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Date of Meeting	Business to be considered
Thursday 17 August 2017	Scrutiny
Monday 25 September 2017	Audit
Thursday 26 October 2017	Scrutiny

Thursday 26 October 2017 Scrutiny
Monday 13 November 2017 Audit and Scrutiny

Thursday 30 November 2017 Scrutiny

Monday 15 January 2018 Audit and Scrutiny

Thursday 15 February 2018 Scrutiny
Monday 19 March 2018 Audit
Thursday 26 April 2018 Scrutiny

Monday 14 May 2018 Audit and Scrutiny

Thursday 31 May 2018 Scrutiny Tuesday 26 June 2018 Audit

DECISION

AGREED the schedule of meetings for Audit and Scrutiny Committee as detailed in the Minute.

The meeting concluded at 1.05 pm

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Scottish Borders Council Local Code of Corporate Governance (approved by Council xx xx 2017)

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council operates through a governance framework for the conduct of its affairs which brings together an underlying set of legislative requirements, governance principles and management processes. The Council's revised Local Code of Corporate Governance, which is consistent with the principles and requirements of the CIPFA/SOLACE Framework 2016 "Delivering Good Governance in Local Government", will help to ensure proper arrangements continue to be in place to meet the Council's responsibilities.

The concept underpinning the Framework is that it assists local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework helps authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The environment in which it works local government is increasing in complexity. The Public Bodies (Joint Working) (Scotland) Act 2014 and other legislation have brought about new roles, opportunities and greater flexibility, as well as challenges for authorities.

The development of new structures, such as health and social care partnerships, necessitates the design of governance structures from the bottom up, ensuring that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established.

Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset. The 'Framework' defines the seven core principles of good governance, which the Council fully supports, namely:

- (i) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- (ii) Ensuring openness and comprehensive stakeholder engagement
- (iii) Defining outcomes in terms of sustainable economic, social, and environmental benefits
- (iv) Determining the interventions necessary to optimise the achievement of the intended outcomes
- (v) Developing the entity's capacity, including the capability of its leadership and the individuals within it
- (vi) Managing risks and performance through robust internal control and strong public financial management
- (vii) Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Scottish Borders Council aims to meet the highest standards of corporate governance to help ensure that it meets its objectives. It will test its structure against these principles by:

- Reviewing its existing governance arrangements against the 'Framework'
- Developing and maintaining an up-to-date Local Code of Governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing a governance statement (Annual Governance Statement) in order to report publicly on the extent to which it complies with its own code on an annual basis, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes for the coming period.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

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

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

A1 Behaving with integrity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation	Standards are set out in the Councillors Code of Conduct.
		Employees Code of Conduct reflects the values of the Council, incorporates "The Seven Principles of Public Life" identified by the Nolan Committee on Standards in Public Life, and includes Whistleblowing Policy.
		The Performance Appraisal scheme in place for officers (PRD) is based upon the Council's Values and Standards and includes Demonstrating Positive Behaviours.
2	Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)	The Corporate Plan (led by CMT, approved by Council and published on website) sets out the Council's vision, values and standards to guide the way it works and to inform strategies and policies based on priorities.
3	Leading by example and using these standard operating principles or values as a framework for decision making and other actions	Declarations of Interest are set out in the Council's Procedural Standing Orders which govern the conduct of each Committee meeting. Members Registers of Interest is published on the Council's website.
		Monitoring Officer produces an Annual Report to the Standards Committee in accordance with Monitoring Officer Protocol (best practice).
4	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	Counter Fraud Policy and Strategy approved by Council.
		Councillors and Employees Codes of Conduct outline the arrangements for identifying, mitigating and recording conflicts of interest, hospitality and gifts.
	effectively	Declarations of Interest are set out in the Council's Procedural Standing Orders which govern the conduct of each Committee meeting.
		Members Registers of Interest is published on the Council's website.
		Employees Code of Conduct includes Whistleblowing Policy.
		Complaints and comments policy and procedures in place for both Corporate and Social Work (statutory) service areas. Annual Complaints Reports to relevant committee. Chief Social Worker Annual Report presented to Council.

A2 Demonstrating strong commitment to ethical values

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Seeking to establish, monitor and maintain the organisation's ethical standards and performance	Annual Governance Statement is the outcome of self-evaluation of compliance. The Audit and Scrutiny Committee remit includes role to ensure the highest standards of probity and public accountability are demonstrated.
2	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	Standards of conduct and behaviour including communication are set out in the Councillors and Employees Codes of Conduct (embodies Nolan principles). Induction programmes include the above to ensure competency.
3	Developing and maintaining robust policies and procedures	Employees Code of Conduct reflects the values of the Council, incorporates "The Seven Principles of Public Life" Council's values from Corporate Plan are included within PRD templates for appraisal.
4	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	Council's values from Corporate Plan are included within the Procurement Charter for external suppliers. Council policies and standards are incorporated into SB Cares service performance agreement.

A3 Respecting the rule of law

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer, the Monitoring Officer and the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols.
2	Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	The Scheme of Delegation sets out the roles and responsibilities of statutory officers (Chief Executive, Chief Social Work Officer, Chief Financial Officer, and Monitoring Officer). Membership of Professional Bodies is required.
3	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	The Local Code of Corporate Governance includes Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations which reflect the legal requirements placed upon the authority.
4	Dealing with breaches of legal and regulatory provisions effectively.	The Service Director Regulatory Services fulfils the Monitoring Officer statutory role. Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer, the Monitoring Officer and the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols.
5	Ensuring corruption and misuse of power are dealt with effectively	Revised Counter Fraud Policy and Strategy approved 2015. Counter Fraud Annual Report presented to Audit and Scrutiny Committee including assurance self-assessment.

B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders

B1 Openness

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	The Corporate Plan (led by CMT, approved by Council and published on website) sets out the Council's vision, values and standards (including "Be fair, equal and open") to guide the way it works and to inform strategies and policies based on priorities.
		Compliance with Data Protection and Freedom of Information legislation.
2	Making decisions that are open about actions, plans, resource use,	Calendar of main Council and Committee meetings.
	forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a	Minutes and committee reports are published on the Council's website.
	decision confidential should be provided	Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.
3	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the	Committee report templates include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, schemes.
	criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	Guidance on preparing Committee reports includes mandatory consultation in advance with the Chief Legal Officer, Chief Financial Officer, Monitoring Officer, Clerk to the Council, Chief Officer HR, and Chief Officer Audit and Risk.
		Calendar of main Council and Committee meetings.
		Committee reports are published on Council's website one week in advance of meeting dates.
4	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	The Scottish Borders Community Planning Partnership (SBCPP) Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner.

B2 Engaging comprehensively with institutional stakeholders

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
-		Engage and communicate with institutional stakeholders in an appropriate manner e.g. health and social care integration; Scottish Borders Council is a partner in the Scottish Borders Health & Social Care Partnership along with NHS Borders through which there has been an extensive process of engagement leading to the publication of Locality Plans in October 2017 for integrated health and social care joint services.
2	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
3	Ensuring that partnerships are based on: • trust;	The Strategic Assessment underpins the strategic vision for the Council and its partners and the commitment to change.
	 a shared commitment to change; a culture that promotes and accepts challenge among partners; and that the added value of partnership working is explicit 	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders. The SBCPP Governance Structure provides forum for challenge, and themes and priorities include sub-groups to support delivery. The SBCPP Improvement Action Plan arising from Audit Scotland review states Performance Management Framework is in development.
		SBC Support resources in kind e.g. to SB Cares, Live Borders, IJB
		SBC Elected Members are appointed to the Scottish Borders Health and Social Care Integration Joint Board.

B3 Engaging stakeholders effectively, including individual citizens and service users

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.
	users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes	The Scottish Borders Health & Social Care Partnership's Strategic Plan 2016-2019 was developed following consultations with interested parties including members of the public, therefore highly co-produced.
2	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement	The Community Plan produced in conjunction with local partners in public services, the private sector, voluntary sector and communities focusses on themes and includes targets and challenges in the plan.
3	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.
	backgrounds including reference to future needs	SBC also has its own tool kit which is more prescriptive.
		Bi –annual Household survey conducted in 2015. (Survey will not be conducted in present form but consultation will take place in a more cost effective manner in 2017.)
4	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.
5	Taking account of the interests of future generations of tax payers and service users	The Strategic Assessment is the body of evidence which underpins the strategic vision for the Council and its partners.
		Local Housing Strategy led by Council working with 4 main RSL's towards delivering future housing needs.
		School-Employer partnerships as part of developing the Young Workforce objectives and priorities (The Wood Report).
		SBC Elected Members are appointed to the Scottish Borders Health and Social Care Integration Joint Board

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

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

C1 Defining outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions	The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council. The SOA will be replaced by the Local Outcomes Improvement Plan (published 1 st October 2017) underpinned by Locality Plans.
		The LOIP is essentially partnership based and will set out measures for reducing inequality and improving outcomes, thereby setting context for future service planning.
		The Scottish Borders Health & Social Care Partnership's Strategic Plan 2016-2019 sets out the vision, strategic objectives and outcomes related to integrated health and social care services.
2	Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural and governance.
3	Delivering defined outcomes on a sustainable basis within the resources that will be available	The Council has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee, and the Audit and Scrutiny Committee (through its scrutiny functions) reviews the achievement of policy objectives and priorities.
4	Identifying and managing risks to the achievement of outcomes	Risk Management Policy and Strategy approved by the Council.
		Risk management practice embedded in business planning and performance management processes, underpinned by a corporate training programme.
5	Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available	The Council's Performance Management Framework establishes the mechanism for all services across the Council to ensure the Council meets its legal duty to provide best value to people. There is annual development and monitoring of Service plans and PIs which are aligned to Priorities. This includes a self-assessment process to evaluate actual versus standard service quality

C2 Sustainable economic, social and environmental benefits

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	Project Business Cases for Capital Programme include assessment of need and strategic fit. As part of this asset life, as well as social and economic impact, is implicitly considered. Strategic Asset Management Plans (SAMPs) are being developed. Plans focus on social, economic, equality and regeneration using a locality approach.
2	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	The Corporate Transformation programme was approved to respond to the social, economic and demographic challenges facing the Council and still deliver high quality and improved services.
3	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural and governance.
4	Ensuring fair access to services	Rural Proofing Policy and Committee reports include section on Rural implications Equality Impact Assessments relating to any new proposals; Equality Mainstreaming Report being prepared. Ensure consistent application of EIAs at approval and review during implementation.

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

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

D1 Determining interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, governance. Guidance on preparing reports for committee approved by Council. Committee reports are published on Council's website one week in advance of meeting dates. Officers attend Committee meetings to advise as appropriate.
2	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	Public engagement and communication as part of Financial Planning Process to reflect reducing resources e.g. Dialogue Community Engagement Tool, Q&A with Executive Members. Asset Reviews in tandem with Locality Plans. Citizen's views form outline for property rationalisation / prioritisation. First iteration to be complete by October 2017. Actions taken subject to Community Empowerment Act.

D2 Planning interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	Calendar of main Council and Committee meetings.
2	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	Community Engagement Toolkit Member / Officer Working Groups TU consultation forums
		Area Forum meetings
3	Considering and monitoring risks facing each partner when working collaboratively including shared risks	Risk Management Policy; improvement required on identification and management of shared risks.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
4	Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	Business Planning, Financial Planning and People Planning processes aligned to Corporate Plan priorities. The Corporate Transformation Programme sets out a far-reaching programme of change to enable the Council to respond to unprecedented social, demographic and economic challenges. The Programme supports the delivery of the Council's 8 Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans.
5	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	Performance Management Framework approved by Council. KPIs set out in Corporate Plan / Business Plans reported monthly to CMT based on availability and within themes. Quarterly performance reporting to Executive Committee in themes; published on website. KPIs performance reporting feed through to wider partnerships including IJB performance reporting.
6	Ensuring capacity exists to generate the information required to review service quality regularly	Consolidated Business Management resources. Business Intelligence Programme is being developed with a view to delivering improvements to the quality of that data and the quality of management information and management reporting and assurance practices.
7	Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan	Themed savings in Revenue plans. Project Business Cases for Capital Programme include assessment of need and strategic fit.
8	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on priorities led by CMT. Corporate Plan led by CMT reflects Priorities.

D3 Optimising achievement of intended outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	Medium-Term Financial Strategy approved alongside Financial Plans.
2	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	Corporate financial planning process led by CMT; new obligations reflected in plan.
3	Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	Medium-Term Financial Strategy The Corporate Transformation Programme supports the delivery of the Council's 8 Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans.
4	Ensuring the achievement of 'social value' through service planning and commissioning (Social Value is technically referred to as Community Benefit in Scotland)	'Adding Value for Communities though Procurement' community benefit guidance policy; will be subsumed into the next revision of the Procurement Strategy due April 2017.

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

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

E1 Developing the entity's capacity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness	CMT Away Days – review progress of Corporate Transformation Programme. Senior Managers events – focus on transformation.
2	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently	Performance Management Framework approved by Council. Local Government Benchmarking Framework; data submission August each year.
3	Recognising the benefits of partnerships and collaborative working where added value can be achieved	Options considered as part of cost rationalisation / corporate transformation e.g. SB Cares, ICT Contract with CGI
4	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	People Planning Process underway across the Council. Organisation-wide People Plan to be developed.

E2 Developing the capability of the entity's leadership and other individuals

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	Regular meetings are held between Chief Executive and Leader.
2	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	The Council's Code of Corporate Governance, which is reviewed on a regular basis, includes Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations which reflect the powers delegated to specific committees and officers to enable effective and efficient fulfilment of their roles.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
3	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority	Regular meetings are held between Chief Executive and Leader. The Chief Executive is a Statutory post with job description. Responsibilities delegated to Chief Executive are detailed within the Scheme of Delegation.
4	Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:-	Induction Programme and access to Courses, Seminars and e-learning. Members Briefings Staff Team Briefings
-	 ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged 	'Introduction to becoming a Councillor' programme in advance of local elections (best practice). Identification of training needs for elected members as part of Elected Members Development Programme. Development and performance review process in place for all employees (PRD). Ongoing training programme (including e-learning, seminars and courses) for all staff and elected members. Training provided to elected members and officers in areas of identified need e.g. licensing, planning, employment, pension, audit, and data protection. CMT Away Days, Senior Manager Events and relaunch of Managers Training.
-	 ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis 	Identification of training needs for elected members as part of Elected Members Development Programme. Development and performance review process in place for all employees (PRD).
-	 ensuring personal, organisational and system wide development through shared learning, including lessons learnt from both internal and external governance weaknesses 	People Planning Process and toolkit; improvement required on full compliance and consistency across Services. Work Opportunities policy.
5	Ensuring that there are structures in place to encourage public participation	The SBCPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner.
6	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	The mid-term report in October 2015 of performance against Corporate Plan provides evidence of how the Executive Committee is fulfilling its remit. Annual self-evaluation of effectiveness of Audit and Scrutiny Committee against best practice guidance and Annual Report to Council thereon.
7	Holding staff to account through regular performance reviews which take account of training or development needs	Development and performance review process in place for all employees (PRD).
8	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	HR Attendance Management Policy and Procedure. Occupational Health arrangements (Contract with People Asset Management (PAM). Employee Assistance Programme (PAM). Employee Benefits roll-out. HR Training – Mindfulness and Personal Resilience; 'Small Changes Big Differences'.

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

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

F1 Managing risk

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	Risk management practice embedded in business planning and performance management processes. Corporate, Strategic and Operational risk registers, programme and project risk registers, and partnership risk registers developed.
		Committee Report templates include a section on implications covering risks and mitigations.
2	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	Risk Management Policy and Strategy scrutinised by Audit and Scrutiny Committee and then approved by the Council. Risk Management Annual Report to enable Audit and Scrutiny Committee to evaluate effectiveness of managing risk. Improvement Plan includes management engagement and more consistent application across service areas.
3	Ensuring that responsibilities for managing individual risks are clearly allocated	Risk Management Policy sets out Roles and Responsibilities to manage risks effectively.

F2 Managing performance

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review	Monitoring and progress reports on the Corporate Transformation Programme, Financial Plans and Corporate Performance are presented quarterly to Executive Committee for monitoring and review purposes. Public Performance Reporting published on Council's website.
2	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	Reports to Committees include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, and governance. Committee reports are published on Modern.gov one week in advance of meeting dates. Guidance on preparing Committee reports.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
3	Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making	The Council's scrutiny arrangements are established through the Scheme of Administration (approved January 2015; amended January 2017) through committee structures and specified remits. The Scrutiny Committee's main remit is for monitoring and reviewing policy decisions, and to also act as a focus for value for money and service quality exercises. The Scrutiny Committee agenda and minutes are published on Modern.gov
	Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	
4	Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	Calendar of meetings approved by Council in advance. Timetables for preparation of and consultation on reports to meet publication dates.
5	Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)	Code of Corporate Governance documents includes Procedural Standing Orders and Financial Regulations which are reviewed on a regular basis.

F3 Robust internal control

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Aligning the risk management strategy and policies on internal control with achieving objectives	Risk Management Policy and Strategy scrutinised by Audit and Scrutiny Committee and then approved by the Council.
		Risk-based Internal Audit plans and reports approved by Audit and Scrutiny Committee.
2	Evaluating and monitoring risk management and internal control on a regular basis	Risk Management Annual Report to enable Audit and Scrutiny Committee to evaluate effectiveness of managing risk.
3	Ensuring effective counter fraud and anti-corruption arrangements are in place	Counter Fraud Policy and Strategy approved by the Council scrutinised by Audit and Scrutiny Committee. Improvement Plan includes compliance with CIPFA Code of Practice on Managing the Risk of Fraud.
4	Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor	Internal Audit assurance as part of preparation of the Council's Annual Governance Statement. Reports to Audit and Scrutiny Committee on provision of Internal Audit statutory service and conformance with Public Sector Internal Audit Standards (PSIAS).
5	Ensuring an Audit and Scrutiny Committee or equivalent group or function which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment that its recommendations are listened to and acted upon	The role of the Audit and Scrutiny Committee is to have high-level oversight of internal control, governance and risk management. Independence is maintained though membership of those not on the Executive Committee. Learning & development includes Induction, seminars and individual sessions. Annual self-evaluation of effectiveness of Audit and Scrutiny Committee against best practice guidance and Annual Report to Council thereon (best practice).

F4 Managing data

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	Information Governance Policy and Framework in place. The Council's Senior Information Risk Owner (SIRO) has overall responsibility for Information Management and is chair of the Information Governance Group (IGG). The IGG meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. The Information Manager leads the Information Team within Legal Services, reporting to Chief Legal Officer and SIRO.
		Information Management Procedures available on the Intranet include: Data Protection; Data Sharing; Freedom of Information; Information Management and Records Management (Retention and Disposal).
		Information Technology Policies and Procedures available on the Intranet include: Email & Internet Use Policy; Information Security Policy; Protective Marking Policy.
		Information Asset Registers (IARs) have been developed. The Records Management Plan has been submitted for agreement by Keeper of Records Scotland. Work is ongoing to implement remaining Improvement Actions and further work is planned to enable compliance with General Data Protection Regulations, due to come into force May 2018.
2	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	Procedures Protocol on sharing of information are published on the Intranet: • General Protocol for Sharing Information • Privacy by Design Guidance and prompt list • Sharing Information Code of Practice
		Register of Data Sharing agreements is in place (for PSN Compliance). Monitoring through an annual Audit by the Information Management Team.
3	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	Quality and Validation of data used in decision making and performance reporting is the responsibility of the service area, ultimately the Service Director.
		Internal Audit annual reviews on Performance Management cover validation of the KPI data submitted for Local Government Benchmarking Framework and for Corporate Priorities.
		The Executive Committee has responsibility for monitoring and challenge including the quality of data relating to decision making.

F5 Strong public financial management

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice	
1	Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance	Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on priorities, led by CMT, and approved by Council in February. Transformation Programme approved by Council in February same time as financial plans.	
2	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial	Revenue and Capital Budget Monitoring reports presented to Executive Committee on a quarterly basis.	
	risks and controls	Financial Strategy Risk Register presented at Approval stage.	

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

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

G1 Implementing good practice in transparency

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	Public Performance Reporting published on Council's website Committee reports are published on the modern.gov site for transparency to reflect the decision-making structure within the Council's Scheme of Administration, including the Health and Social Care IJB.
2	Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	The Council produces and publishes annual accounts that set out the financial position and performance. Public Performance Reporting published on Council's website. Service-specific Annual Reports presented to relevant committee and made accessible to the public e.g. Chief Social Work Officer Annual Report, Education Standards and Quality Report.

G2 Implementing good practices in reporting

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reporting at least annually on performance, value for money and the stewardship of its resources	The Statement of Accounts, incorporating a Management Commentary, provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.
		External Audit Annual Report provides assurance and key recommended improvements.
2	Ensuring members and senior management own the results	Guidance on preparing Committee reports includes mandatory consultation in advance, and templates incorporate appropriate approvals.
3	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	Annual Governance Statement is the outcome of self-evaluation of compliance which includes the Governance Framework, the Review of Framework, and Improvement Areas of Governance.
4	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	Annual Governance Statement covers assurances from SB Cares and other partners as reflected within the Group Accounts.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
5	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	The Management Commentary in Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G3 Assurance and effective accountability

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring that recommendations for corrective action made by external audit are acted upon	Reports outlining findings and recommendations (including follow-up progress) presented to the Audit and Scrutiny Committee.
2	Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	Regular reports on Internal Audit performance and compliance presented to the Audit and Scrutiny Committee. Chief Officer Audit & Risk meets regularly with Chair of Audit and Scrutiny Committee.
3	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	Annual Scrutiny Plan by Audit Scotland presented to Audit and Scrutiny Committee. Reports by external scrutiny and inspection bodies outlining findings and recommendations presented to relevant committee.
4	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	The existing governance framework including alternative service delivery arrangements is outlined in the Annual Governance Statement.
5	Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	The Strategic Assessment is the body of evidence which underpins the strategic vision for the Council and its partners.

Scrutiny Committee – Review Subjects 2017/18

Reviews for Consideration

Source	Issue/Description	Stage	Scrutiny Committee Meeting Date
Audit & Scrutiny Committee (Cllr H Scott)	Health and Social Care Integration Joint Board.		
Audit & Scrutiny Committee (Cllr H Scott)	IT within Scottish Borders Council.		
Audit & Scrutiny Committee (Cllr H Scott)	Waste Disposal Unit at Langlee in Galashiels.		
Audit & Scrutiny Committee	Examining Risk within the Council (Service Directors attend under Audit Business.)		
Audit & Scrutiny Committee	Community Access to Schools (Considered in 2007 – to be reviewed again due to time lapse and changing dynamics.)		
Audit & Scrutiny Committee	Provision of janitorial services in schools.		
Audit & Scrutiny Committee (Cllr H Anderson)	Review of the Provision of Services - 1. SB Cares; 2. LiveBorders.		
	(Internal Audit work ongoing and will be reported later in 2017.)		
Audit & Scrutiny Committee (Cllr H Anderson)	Contract Management.		
Audit & Scrutiny Committee (Cllr H Anderson)	Following the Public Pound.		
Audit & Scrutiny Committee (Cllr Thornton-Nicol)	Cost of delivery of services per person across the Scottish Borders.		
Audit & Scrutiny Committee (Cllr Thornton-Nicol)	Performance Criteria and Outcomes, eg Common Good Funds.		

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ANNUAL TREASURY MANAGEMENT REPORT 2016/17

Report by Chief Financial Officer

AUDIT & SCRUTINY COMMITTEE

25 September 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present the annual report of treasury management activities undertaken during the 2016/17 financial year to the Audit & Scrutiny 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 2017 and the performance of the Treasury function.
- 1.3 Appendix 1 is the annual report of treasury management activities for 2016/17 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 15 December 2016.
- 1.4 The Appendix shows the Council's borrowing requirement to fund the capital investment undertaken during 2016/17, 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. However, the Council did undertake short term borrowing for cash flow purposes and long term borrowing for capital purposes during the year, amounting to £9m and £12m respectively.
- 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 2017.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Scrutiny Committee:
 - (a) notes that treasury management activity in the year to 31 March 2017 was carried out in compliance with the approved Treasury Management Strategy and Policy; and
 - (b) agrees to the presentation of the Annual Treasury

3 BACKGROUND

- 3.1 The Council approved the Treasury Management Strategy (the Strategy) 2016/17 at the Council meeting on 11 February 2016. 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 15 December 2016 and approved the revised Prudential and Treasury Management Indicators for 2016/17 following the updating of assumptions, in particular capital expenditure estimates.
- 3.3 As set out in the Strategies, the Audit and Scrutiny 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 2017

- 4.1 The Annual Treasury Management Report for 2016/17 is shown in Appendix 1.
- 4.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2016/17, 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 2016/17 target indicators reported upon are based on the revised indicators agreed as part of the mid-year report on 15 December 2016.
- 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 2017, with comparators, are as follows:

	2016/17 Actual £m	2016/17 Estimate £m	Variance £m
Actual Capital Expenditure (PI-1)	51.8	67.5	(15.7)
Total Capital Financing Requirement (CFR) (PI-2)**	287.1	285.9	1.2
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(59.4)	(40.2)	19.2

^{*}Revised estimate, approved by Council 15 December 2016 as part of the mid-year report

(a) PI-2 Total Capital Financing Requirement

The year-end total CFR varied only marginally from that projected in the mid-year report.

(b) **PI-6 (Under)/Over Gross Borrowing against the CFR**

The reason for the decrease in the level of under-borrowing,

^{**} The CFR for this calculation is based on expenditure to 31 March 2017 only

^{***} The CFR for this calculation includes the current year and projected movement for the next two subsequent years.

compared to that projected is due to the actual level of capital expenditure for 2016/17 being less than the projected value in the mid-year report.

(c) **Investments**

Investments held on 31 March 2017amounted to £6.1m. This fell from £19.5m at 31 March 2016 in line with the strategy of utilising cash balances rather than undertaking additional borrowing.

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 2017

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 15 December 2016

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.

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APPENDIX 1



SCOTTISH BORDERS COUNCIL

ANNUAL TREASURY MANAGEMENT REPORT YEAR TO 31 MARCH 2017

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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 2016/17. 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 2016/17, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2016/17 was funded. The investment strategy for 2016/17 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 2016/17, 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	2016/17 Actual £m	2016/17 Estimate £m	Variance £m
Actual Capital Expenditure (PI-1)*	51.8	67.5	(15.7)
Total Capital Financing Requirement (CFR) ** (PI-2)	287.1	285.9	1.2
(Under)/Over Gross Borrowing against the CFR (<i>Pl-6</i>) ***	(59.4)	(40.2)	19.2

^{*} Revised estimate, approved by Executive Committee on 15 November 2016 as part of the midyear report

- 1.4 Additional borrowing for capital purposes was undertaken during 2016/17 amounting to £12m. The statutory borrowing limit (the authorised limit) was not breached.
- 1.5 The economic environment during the 2016/17 financial year continued to remain challenging, with low investment returns.

^{**} The CFR for this calculation includes current capital expenditure to 31 March 2017

^{***} The CFR for this calculation includes the current and two future years projected capital expenditure.

2. COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2016/17

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 final capital expenditure for 2016/17 was lower than projected as a result of delays in expenditure on a number of projects, including Schools, specifically relating to Broomlands Primary School (£4.3m) and Early Learning and Childcare block expenditure (£1.8m). The Great Tapestry of Scotland project incurred delays due to the relocation of the original preferred site (£5.7m). Delays in expenditure in ICT Transformation (£2.5m) and Street Lighting projects (£1.1m) 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 2016/17 and in the out-turn report presented on 20 June 2017.

2.2 FINANCING THE CAPITAL PROGRAMME

- a) Capital Expenditure may either be financed:
 - 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 2016/17 capital expenditure.

Table 3	2016/17 Actual	2016/17 Estimate	Variance
	£m	£m	£m
Capital Expenditure	51.8	67.5	(15.7)
Other Relevant Expenditure *	2.3	0.6	1.7
Total Expenditure	54.1	68.1	(14.0)
Financed by:			
Capital Grants & Other Contributions	23.5	28.6	(5.1)
SBC Revenue Funding	0.3	0.0	0.3
Capital Fund/Capital Receipts	1.4	1.3	0.1
Plant & Vehicle Fund	2.4	2.1	0.3
Total identified finance	27.6	32.0	(4.4)
Net Financing Need for the Year	26.5	36.1	(9.6)

^{*} This consists of net lending to the National Housing Trust (NHT) during 2016/17 of £2.257m.

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 b).

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 2016/17 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 2017 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	31 March	
	2017 Actual	2017 Estimate	Variance
	£m	£m	£m
CFR (PI-2)*	287.1	285.9	1.2
Less: Other long term liabilities **	51.2	52.9	(1.7)
Underlying borrowing requirement	235.9	233.0	2.9
External Borrowing at 31/3/17	192.0	197.1	(5.1)
(Under)/Over borrowing	(43.9)	(35.9)	(8.0)

^{*}The CFR for this calculation includes current capital expenditure to 31 March 2017

^{**}PPP/PFI/Finance Lease balances

- e) Whilst the CFR increased by £1.2m from the mid-year projection, the net financing need for the year at the year-end was £9.6m less that projected mid-year (table 3). This would imply a corresponding reduction in CFR between these periods. Accounting transactions relating to the Waverley Railway repayment as well as full accounting for consents to borrow relating to National Housing Trusts account for this difference.
- f) The reason for the increase in the level of under-borrowing, compared to that projected, is due to the Council having greater than anticipated positive cash-flow to fund expenditure, thereby reducing the projected borrowing requirement for the year to 31 March 2017. In addition, the actual level of capital expenditure for 2016/17 was less than the projected value in the mid-year report due to variances highlighted in paragraph 2.1 (b).

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 current year (2016/17) plus the estimates of any additional capital financing requirement for the 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 2016-17. 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 2017 Actual £m	31 March 2017 Estimate £m	Variance £m
Fixed rate funding			
PWLB	139.6	153.7	(14.1)
Market	9.0	-	9.0
Variable rate funding			
Market *	43.4	43.4	0.0
External Borrowing	192.0	197.1	(5.1)
Other long term liabilities **	51.2	52.9	(1.7)
Total Debt	243.2	250.0	6.8
CFR (inc. next 2 year estimates)	302.0	290.2	11.8
(Under)/Over Gross Borrowing against the CFR (PI-6)	(58.8)	(40.2)	(18.6)

^{*} LOBO loans (where a rate change could be instigated by the lender at certain intervals)

- b) Council deposits were made on a short term basis throughout 2016/17.
- c) There was no rescheduling of debt during 2016/17. Additional long term (PWLB) borrowing of £12m was undertaken in 2016/17 as well as short term borrowing on £9m towards the year end, which was repaid in full during April 2017.

^{**} PPP/PFI/Finance Lease balances

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 2016/17

Table 6	31 March 2017 Actual	Authorised Limit (Pl-8)	Variance	Operational Boundary (PI-7)	Variance
	£m	£m	£m	£m	£m
Total Gross Borrowing	243.2	335.9	(92.7)	277.1	(33.9)

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 2017
	£m
Under 12 months	9.0
12 months and within 5 years	11.2
5 years and within 10 years	16.6
Over 10 years	155.2
Total	192.0

4. INTEREST RATE MOVEMENTS AND EXPECTATIONS

4.1 TREASURY STRATEGY FOR 2016/17

- a) The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017), 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 until absolutely required to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
- b) During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.
- c) The comparison of the annual *average* percentage interest rates to projections within the 2016/17 strategy is set out in **Table 8** below.

Table 8	Bank Rate	PWLB Rates %		
	%	5 year	25 year	50 year
2016/17 Estimate	0.57	2.15	3.48	3.33
2016/17 Actual	0.33	1.63	2.92	2.69
Variance	0.24	0.52	0.56	0.64

4.2 THE ECONOMY AND INTEREST RATES - 2016/17

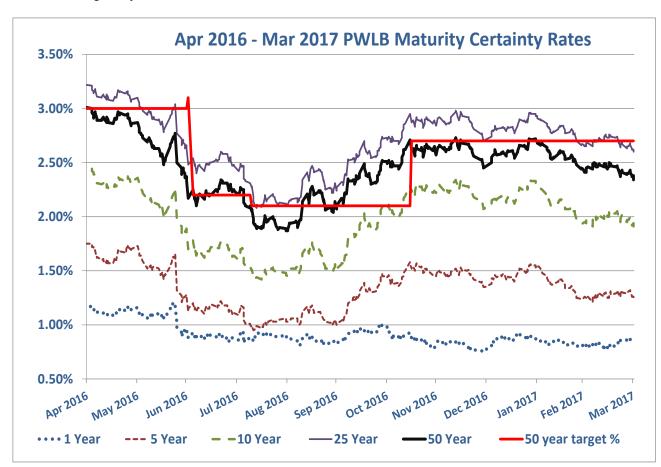
- a) The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016.
- b) The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- c) In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

- d) By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.
- e) Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

4.3 BORROWING RATES IN 2016/17

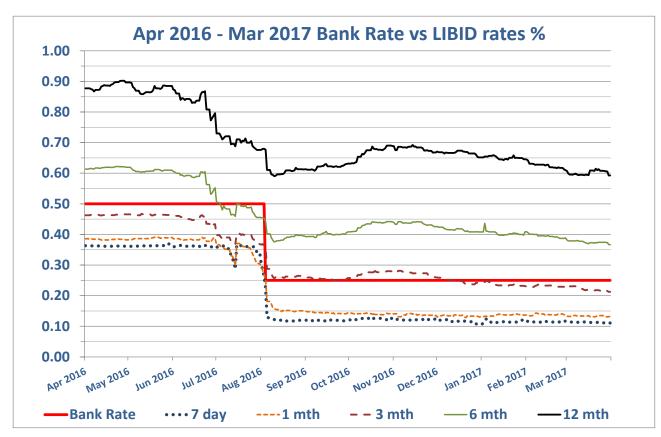
a) PWLB Borrowing Rates

Chart 1 below shows how PWLB certainty rates have fallen to historically very low levels during the year.



4.4 INVESTMENT RATES IN 2016/17

- a) After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.
- b) **Chart 2** below illustrates the change in the Investment Rates certainty maturity rates, for a selection of maturity periods, throughout 2016/17.



5. INVESTMENT STRATEGY FOR 2016/17

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) maximising 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, 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 2017 was £6.1m. Cash was held on a short term basis throughout 2016/17 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 2016/17.

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 4.32% for 2016/17 was 0.30% lower than the reported Council's rate of 2015/16.

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 206/17, 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 in 2016/17, with the exception of 1 day in November, when liquid deposits stood at £2.6m. A decision was made not to borrow to cover the £3m requirement as confirmed cash receipts of £4.7m were known for the following day
- (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 2016/17 averaged 0.31%, compared against an average 7 day LIBID rate for the year to 31 March 2017 of 0.20%.

2015/16 comparison figures for average internal returns and 7 day LIBID were 0.4% and 0.36% respectively. Therefore, 2016/17 returns showed a continued return in excess of target albeit a falling return from prior years. This is in line with the Bank of England cut in base interest rate from 0.5% to 0.15% in August 2016.

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 (falling to 0.10% from 0.25% in 2016/17). 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 2016/17 mid year report to the outturn as at 31 March 2017 is as follows:

Table 9	Actual	Estimate
Ratio of financing costs to net revenue	%	%
stream (PI-3)	8.49	8.6

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	2016/17 Outturn £m	2016/17 Mid-Year Estimate £m	Variance (Under) /Over £m
Interest on Borrowing	12.3	12.0	(0.3)
Investment Income	(0.3)	(0.2)	0.1-
Capital Repayments	8.5	8.5	-
Total Loan Charges	20.5	20.3	(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 2016/17

Table 11	2016/17 Revised Indicator		2016/17 Actual as at 31 March 2017	
Upper limits – Debt with fixed and varia	able intere	st rates		
Upper limits on fixed interest rates (TI-1)	272	2.4	277.1	
Upper limits on variable interest rates (TI-2)	95.	.3	97.0	
Maturity Structure of borrowing				
	Upper	Lower		
	(TI-3)	(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

Indicator Reference	Indicator	Page Ref.	2016/17 Original estimate	2016/17 Revised estimate	2016/17 Actual	
PRUDENTI	AL INDICATORS			•		
Capital Exp	enditure Indicator	1		I		
PI-1	Capital Expenditure (£m)	3	66.8	67.5	51.8	
PI-2	Capital Financing Requirement (£m) (CFR)	6	291.8	285.9	287.1	
Affordabilit	y Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	16	9.0%	8.9%	8.49%	
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	N/A	(0.05)	0.00	(0.06)	
External De	ebt Indicators					
PI-5	Actual Debt (£m)	8	250.5	250.0	243.2	
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	9	272.4	273.1	277.1	
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	9	219.7	220.1	226.0	
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	9	307.2	310.1	335.9	
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	9	254.6	257.1	284.8	
Indicators of	of Prudence					
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	8	(47.8)	(40.2)	(59.4)	
TREASURY	INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	16	272.4	273.1	277.1	
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	16	95.3	95.6	97.0	
TI-3 & TI-4	Maturity Structure of Fixed Interest Rate Borrowing	16	Upper	Lo	Lower	
	Under 12 months		20%		0%	
	12 months to 2 years		20%		0%	
	2 years to 5 years		20%		0%	
	5 years to 10 years		20%		0%	
	10 years and above	е		2	20%	
TI-5	Maximum Principal Sum invested greater than 364 days	16	20%	20%	20%	



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Audit and Scrutiny Committee Scottish Borders Council Newtown St Boswells, TD6 0SA

25 September 2017

Dear Audit and Scrutiny Committee Members,

Scottish Borders Council 2016/17 Annual Audit Report

- International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our proposed annual report on the 2016/17 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
- 2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 29 September (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
- 3. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
- 4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
- 5. As part of the completion of our audit we seek written assurances from management on aspects of the financial statements and judgements and estimates made. A letter of representation template under ISA580 is attached at <u>Appendix B</u>. This should be signed and returned by the Chief Financial Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Yours faithfully,

Gillian Woolman MA FCA CPFA

APPENDIX A: Proposed Independent Auditor's Report

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

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Scottish Borders Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the Council Tax Income Account, and the Non-domestic Rate Income Account and notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state
 of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of
 services 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 Financial Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Financial Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Assistant Director Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Assistant Director Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN

Dear Gillian

Scottish Borders Council Annual Accounts 2016/17

- 1. This representation letter is provided in connection with your audit of the financial statements of Scottish Borders Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Scottish Borders Council, as at 31 March 2017 and its comprehensive net expenditure for the year then ended.
- 2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Audit and Scrutiny Committee, the following representations given to you in connection with your audit of Scottish Borders Council for the year ended 31 March 2017.

General

- 3. I acknowledge my responsibility and that of Scottish Borders Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Scottish Borders Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
- 4. The information given in the Annual Accounts, including the Management Commentary and Remuneration Report, presents a balanced picture of Scottish Borders Council and is consistent with the financial statements.
- 5. I am not aware of any uncorrected misstatements.

Financial Reporting Framework

- 6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
- 7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Scottish Borders Council and its group for the year ended 31 March 2017.

Accounting Policies & Estimates

- 8. All material accounting policies adopted are as shown in the Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- 9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. As Chief Financial Officer I have assessed Scottish Borders Council's ability to carry on as a going concern, as identified in the Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Events Subsequent to the Date of the Statement of Financial Position

- 12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
- 13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

- 14. I acknowledge, as the officer with responsibility for the proper administration of the council's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
- 15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2017, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who

have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2017 were owned by Scottish Borders Council, other than assets which have been purchased under finance leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2017 and of which Scottish Borders Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2017.

Yours sincerely

David Robertson, Chief Financial Officer

Section 95 Officer





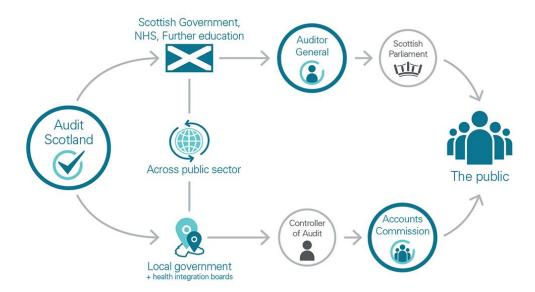


To Members of Scottish Borders Council and the Controller of Audit
25 September 2017

Who we are

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

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



About us

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

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

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

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Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 Unqualified opinions were issued for the seven charitable trusts administered by the Council.

Financial management

- 3 Financial management is effective with a budget setting process focused on the Council's priorities.
- 4 The Council has a good track record of delivering services within its budget.
- 5 The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

Financial sustainability

- The Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central government funding will continue to place a strain on the Council's capacity to deliver services at the current levels.
- 7 The Council has an adequate level of reserves and has medium-term financial plans that are aligned to Council priorities and demonstrate how it will address future budget challenges. This is in line with good practice.

Governance and transparency

8 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council. The Council is open and transparent in the way it conducts it business and the public can attend meetings of the Council and its standing committees.

Value for money

- 9 Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial management, financial sustainability and the use of resources, with good progress made since the last Best Value report.
- 10 The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

- 1. This report is a summary of the findings arising from the 2016/17 audit of Scottish Borders Council ('the Council' or 'SBC').
- 2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit & Risk Committee. This report comprises:
 - an audit of the annual accounts
 - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in <u>Exhibit 1</u>.

Exhibit 1Audit dimensions



Source: Code of Audit Practice 2016

- 3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the Council's main financial systems and governance arrangements
 - audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources
 - an audit of the Council's 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions
 - a local risk assessment of the Council's housing benefits service.

- **4.** Scottish Borders Council is responsible for preparing the annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.
- **5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the <u>Code of Audit Practice 2016</u> guided by the auditing profession's ethical guidance.
- 6. As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within Scottish Borders Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- **7.** Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.
- **8.** This report raises matters from the audit of the annual accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- Our annual audit report contains an action plan at <u>Appendix 1 (page 26)</u>. It sets out specific recommendations, responsible officers and dates for implementation.
- 10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- **11.** This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- **12.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual accounts



Main judgements

Unqualified audit opinions on the Council's annual accounts.

Unqualified audit opinions on the seven charitable trusts administered by the Council.

Unqualified audit opinions

- 13. The annual accounts for the year ended 31 March 2017 were considered by the Audit and Scrutiny Committee on 25 September 2017 and approved by the Council on 28 September 2017. We reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements
 - unqualified opinions on the management commentary, remuneration report and annual governance statement.
- 14. Additionally, we have nothing to report in respect of those matters which we are required to report by exception.

Audit of charitable trusts administered by Scottish Borders Council

- 15. Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Scottish Borders Council are sole trustees, irrespective of the size of the charity.
- 16. Our duties as auditors of the seven charitable trusts administered by Scottish Borders Council are to:
 - express an opinion on whether the financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
 - read the trustees' annual reports and express an opinion as to whether they are consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.
- 17. We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of SBC Charital SBC Community

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

- Enhancement Trusts, SBC Education Trust, SBC Ormiston Trust for Institute, SBC Thomas Howden Wildlife Award Fund, SBC Welfare Trusts and the SBC Common Good Funds.
- **18.** The Ormiston Trust for Institute accounts included a tangible asset in its balance sheet at a value of £216k. When agreeing this asset to the asset register we identified that the value had been overstated by £17k. This is material in the context of the trust's accounts. The value of the asset was corrected in the audited version of the accounts.

Appendix 1, Action plan point 1

- 19. Work is ongoing to reorganise the Council's registered and unregistered trusts and charities. In March 2014 the registered Charitable Trusts covering Community Enhancement, Education and Welfare were established. Where appropriate a number of the existing trust funds were transferred into these charities. The purpose and governance of these Trusts were approved by the Council in May 2015.
- **20.** This left a further group of 76 Trusts registered within a separate SBC Charitable Trust, 177 unregistered Trusts, and two individual registered Trusts, the Thomas Howden Wildlife Trust and the Ormiston Institute. The next phase of the charitable reorganisation now looks to amalgamate, where possible, the remaining Trusts into the established charitable trusts.
- **21.** The charitable trusts are consolidated into the Council's group accounts.

Submission of the Council's annual accounts for audit

- **22.** We received the unaudited annual accounts on 28 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of Scottish Borders Integration Joint Board.
- 23. The working papers provided with the unaudited accounts were of a reasonable standard, although we identified areas where we consider improvements could be made. The introduction of a new financial system for 2017/18 should allow for a higher standard of working papers for the 2017/18 audit. Finance staff provided good support to the audit team during the audit.

Risk of material misstatement

24. Appendix 2 (page 28) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

- 25. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
- **26.** Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and is summarised in Exhibit 2 (page 9). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

27. On receipt of the unaudited 2016/17 annual accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£4.01 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£2.00 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality, rounded to £40,000.	£40,000
Source: Audit Scotland Annual Audit Plan 2016/17	

How we evaluate misstatements

28. There were no material adjustments to the unaudited financial statements arising from our audit. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. There are no unadjusted errors arising from the audit.

Significant findings

29. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in Exhibit 3 below.

Exhibit 3

Significant findings from the audit of Scottish Borders Council

Issue	Resolution
1. Carbon Reduction Commitment The unaudited Council accounts included two provisions relating to the Council's carbon reduction commitment, one for £225k and one for £411k. Following review of these provisions we identified they had not been accounted for correctly and neither should have been accounted for as a provision.	The £225k provision for the energy efficiency scheme should have been treated as a creditor rather than a provision.
	The £411k provision for purchased allowances was not required in the accounts. This had also been included as a prepayment within debtors. Provisions and debtors were therefore both overstated by this amount.
Pag	The audited accounts were adjusted to correct these misstatements. e 65

Issue	Resolution	
2. Creditor with SBC Pension Fund	The accounts have been adjusted to correct this error.	
Debtors/creditors due from/to Scottish Borders Council Pension Fund were overstated by £168k. This error is due to the respective creditor not being netted off against the creditor in the accounts.		
3. Group accounts	We have recommended that the Council should request audited accounts for group entities to be provided earlier to allow the group accounts to use the audited figures.	
The Council's group accounts are based on unaudited accounts for the group entities. Due to timing of the receipt of audited accounts from the		
group entities the figures are not able to be updated for the audited accounts until after the Council's audited accounts are finalised.	See appendix 1, action point 2	

Going concern

30. The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

Other findings

31. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections and Whole of Government Accounts

- **32.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. No objections were received on the 2016/17 annual accounts.
- **33.** The Council submitted a consolidation pack for the whole of government accounts audit on 20 July 2017.

Part 2

Financial management



Main judgements

Financial management is effective with a budget setting process focused on the Council's priorities.

The Council has a good track record of delivering services within its budget.

The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

Financial performance in 2016/17

- 34. In February 2016 the Council approved a budget of £263.2 million for 2016/17. The actual outturn for the year was expenditure of £261.6 million, which was an underspend of £0.8 million against the revised budget of £262.4 million for the year. Following adjustments for earmarked balances, the overall net underspend for the year was £0.1 million. The Council has a good track record in delivering services within budget over the last few years.
- 35. While the Council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The largest areas of over and underspends are summarised in Exhibit 4 below.

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

Exhibit 4

Summary of largest areas of over and under spends against budget

Area	Under/over Reason(s) for spend (£m)	variance
Underspends		

Children and Young People

Lower than expected expenditure in Central Schools and staffing savings.

	Under/over spend (£m)	Reason(s) for variance
Neighbourhood services	£0.2	Reduced costs due to favourable weather conditions as well as underspends on staffing, premises, materials.
Overspends		
Chief Executive	£0.5	Scottish Wide Area Network additional costs due to slippage in the project caused by the failure of an external partner to migrate sites.

Efficiency savings

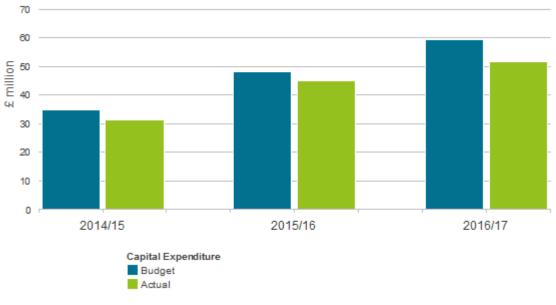
- **36.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.
- **37.** Savings of £12.4 million were delivered during 2016/17. This was a significant increase in the amount of savings compared to previous years, with £7.8 million having been delivered in 2015/16 and £8.1 million in 2014/15. However the proportion of savings achieved on a recurring (permanent) basis has decreased compared to previous years, with 73% (£9.0 million) achieved on a permanent basis in 2016/17 compared to 85% (£6.6 million) in 2015/16. The remaining 27% (£3.4 million) were delivered on a non-recurring (temporary) basis and will need to be addressed in future years.

Appendix 1, Action plan point 3

Capital programme 2016/17

38. Total capital expenditure in 2016/17 was £51.8 million, with significant expenditure on the Council's school estate, flood protection schemes and transport infrastructure. Total capital spend was £7.7 million below the revised budget for the year, with £7.4 million taken forward to future years. The Council has a history of slippage in its capital programme as outlined in Exhibit 6 (page 13).

Exhibit 6
Capital expenditure compared to budget



Source: SBC annual accounts

- **39.** The main areas of slippage were in the reprofiling of Broomland Primary School due to contractor delays, delayed implementation of digital customer access and delays in the street lighting energy efficiency project due to purchasing delays.
- 40. Internal Audit carried out a review of capital investment as part of their work in 2016/17. They found that improvements have been made to the information that members receive as part of budget monitoring reports and that arrangements in place are sound. However they noted that further improvements could be made, including having Strategic Asset Management Plans in place for all asset classes and having additional information included in monitoring reports regarding quality, risk and delivery of benefits.

Budgetary monitoring and control

- **41.** The <u>Local Government in Scotland: Financial overview 2015/16</u> (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.
- **42.** Within the Council the detailed scrutiny of financial performance is delegated to the Executive Committee which receives quarterly revenue and capital monitoring reports. From our review of these reports we concluded that they provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the Council's finances.

Internal controls

43. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

44. Our findings were included in our interim audit report that was presented to the Audit and Scrutiny Committee in June 2017. We concluded that key controls were operating effectively. No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud

- **45.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.
- **46.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud

National Fraud Initiative

- 47. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
- **48.** The latest position on NFI investigations by the Council, excluding Council Tax data matches, is summarised in Exhibit 7 below.

Exhibit 7 National Fraud Initiative

Total number of matches



1,020

Source: NFI website

Number recommended for investigation



164

Completed/closed investigations



324

49. NFI progress and outcomes are reported to the Audit and Scrutiny Committee as part of the annual counter fraud report. The Corporate Fraud and Compliance Officer oversees NFI work at the Council, investigation work is currently ongoing and will be completed by the end of 2017.

Part 3

Financial sustainability



Main judgements

The Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central government funding will continue to place a strain on the Council's capacity to deliver services at the current levels.

The Council has an adequate level of reserves and has medium-term financial plans that are aligned to Council priorities and demonstrate how it will address future budget challenges. This is in line with good practice.

Financial planning

- **51.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors are only required to approve a budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures on the Council.
- 52. The Council has a financial strategy covering five years, which is in line with good practice, and which is reviewed as part of the annual budget setting process. Although longer term financial scenarios are inherently difficult to predict, in line with best practice we recommend that Councils consider the recommendations set out in the Accounts Commission report on <u>Scotland's public finances a follow-up audit: Progress in meeting the challenges</u> (June 2014), including making use of longer term scenario planning within their financial strategies.

Appendix 1, Action plan point 4

Funding position

- **53.** The Council approved its 2017/18 budget in February 2017. The budget was set at £264.8 million, which is based on achieving £9.5 million of savings, as well as a planned drawdown from reserves of £2.9 million.
- **54.** The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in central government funding.

Savings plans

55. As outlined in paragraphs 36 to 37 the Council achieved its efficiency savings target in 2016/17. Scottish Borders Council has identified that it needs to make recurring savings of £12.3 million for 2017/18 and additional savings of £9.5 million over the following four years as part of pia plane to maintain financial

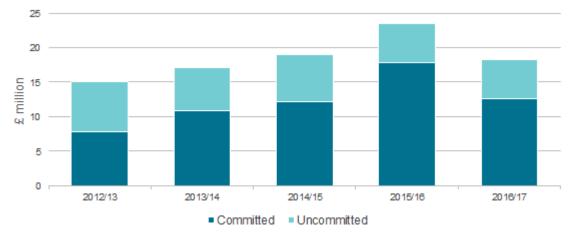
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

balance. The Council has been proactive in trying to effectively manage this by preparing medium-term financial plans as part of its budgeting process. The financial plans set out the expected pressures, along with details of the proposed actions to achieve savings over the period of the plan. 2017/18 is the final year of a five year plan initially agreed in 2013/14, which has been updated each year.

Reserves

- **56.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council decreased from £31.2 million in 2015/16 to £25.9 million in 2016/17, mostly due to the use of earmarked balances from the general fund.
- **57.** The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.
- 58. The Council reviews the level of its uncommitted reserves when setting the budget each year. The review is based upon an assessment of corporate risks, with each risk being assigned a likely financial amount as well as a likelihood of the risk occurring. As part of the budget setting process for 2017/18 the Corporate Financial Risk Register was considered by the Council in February 2017. At this time the financial risk in the risk register was assessed as being £10.9 million. The unallocated general fund balance of £5.4 million is sufficient to cover 52% of these risks at that time. This is a slight improvement on the prior year position which covered 48% of the assessed risks at that time.
- **59.** We consider the Council's approach to reserves to be prudent and are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.
- **60.** Exhibit 9 provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund balance has tended to increase over recent years, although there has been a reduction between 2015/16 and 2016/17 as the Council has utilised earmarked balances within the reserve.

Exhibit 9Analysis of general fund over last five years



Source: Scottish Borders Council's Annual Accounts

Business transformation

- **61.** A key element of the Council's ability to achieve efficiency savings is its Corporate Transformation Programme which is intended to provide a framework for the delivery of activities and projects over a five year period.
- **62.** As part of the Transformation Programme, the Council has agreed a 13 year contract with an external partner, CGI, to transform its ICT services. During the year 46 Council ICT staff transferred to CGI as part of this arrangement. The Council monitor the arrangement with CGI through a Digital Transformation Board, with regular meetings taking place between Council officers and CGI officers. Internal Audit reviewed the arrangements in place as part of their work on ICT Change Management and concluded that appropriate governance arrangements are 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.
- **63.** As part of the ICT changes taking place at the Council a new Enterprise Resources Solution (ERP) system was introduced and went live from 1 April 2017. This new system provides an integrated financial system including general ledger, payroll and purchasing services. The introduction of this system was co-ordinated by a project board which meets regularly.
- **64.** From discussion with officers, and review of project board papers, we are aware that there were a few issues with the introduction of the new system, including delays in implementing changes to the method of corporate financial monitoring and reporting. However, we recognise that the scale of the change required was significant and that the transfer to the new system has largely gone as anticipated. We will be reviewing the introduction and operation of the ERP system as part of our 2017/18 audit work.
- **65.** The Corporate Transformation Programme also includes other areas such as the property and estates rationalisation, school estates review, workforce transformation and energy efficiency programmes. It provides the framework for the delivery of projects to ensure the Council remains financially sustainable, and progress is reported quarterly to the Executive Committee.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees.

The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Minutes of committee meetings and agenda papers are readily available on the Council's website for public inspection.

Council changes

66. The Council saw significant changes in its elected members following the local government elections in May 2017, with nineteen of its thirty four members being elected for the first time. The Council recognise this brings opportunities with new ideas and approaches from the members but it also provides challenges for the Council in ensuring members have the skills they need to be effective in their roles.

Members' induction and development

67. Following the local government elections in May 2017 there has been a sustained period of elected member training, recognising the number of newly elected members. A series of training events have been held to support elected members and help them develop an understanding of their role. We reviewed the induction programme and materials provided to new members and concluded that effective arrangements were in place to provide councillors with the required training for their role.

Governance arrangements

68. We reviewed the Council's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management

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.

- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.
- **69.** A revised Scheme of Administration was agreed by the Council following the election in May 2017. The functions previously delegated or referred to the Scrutiny Committee by the Council have now been included within the functions of the Audit and Scrutiny Committee which has replaced the previous Audit and Risk Committee.
- 70. The Audit and Scrutiny Committee includes up to three external members for considering audit related matters, which was also the case for the previous Audit and Risk Committee. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control.
- **71.** We concluded that the Council's arrangements are appropriate and adequate in that they support good governance and accountability.

Management commentary, annual governance statement and remuneration report

- **72.** The <u>Code of Audit Practice 2016</u> requires Councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.
- **73.** Based on our knowledge and work performed, we concluded that the annual governance statement and remuneration report are consistent with the financial statements.
- **74.** The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. We concluded that the Council's management commentary was balanced, well presented and understandable, and consistent with the financial statements.

Internal audit

- **75.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.
- 76. The internal audit function is carried out by an in-house team. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
- 77. To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: creditors payments, salaries (including expenses) and revenues (council tax). We also considered internal audit report findings as part of our wider dimension work.

Transparency

78. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is

- taking decisions and how it is using resources such as money, people and assets.
- 79. There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.
- **80.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.
- **81.** The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.
- **82.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

Freedom of Information handling

- **83.** During 2017 the Scottish Information Commissioner has issued two rulings against the Council regarding its handling of a Freedom of Information (FoI) request from a member of the public. These decisions found that the Council had not complied with the requirements of the FoI legislation and had incorrectly withheld information.
- 84. As part of our audit work we held meetings with Council officers to discuss how the Council had responded to the FoI requests, and to determine whether the Council had identified any lessons to be learned from the handling of the request or any improvements to its process for dealing with requests. Based on the work carried out, we are satisfied that the Council has an appropriate system in place for responding to FoI requests and that improvements have been adopted.

Lender Option Borrower Option

- **85.** During the year Audit Scotland received correspondence on a number of councils using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose, on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan. Scottish Borders Council has around £43 million of these standard LOBOs within its market debt portfolio, totalling £197 million.
- **86.** We have held discussions with council officers and reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest and the Council's treasury management policies and controls.
- 87. Based on our work we can conclude that:
 - the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
 - the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the Council's interest costs to date on these loans have been less than the PWLB equivalent

- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.
- **88.** There are no further issues we wish to raise in this report.

Integration of health and social care

- **89.** Legislation to implement health and social care integration was passed by the Scottish Parliament in February 2014. This brings together NHS and local council care services under one partnership arrangement for each area.
- **90.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is seen as a means of achieving this.
- **91.** The Scottish Borders Integration Joint Board (IJB) is provided in partnership with NHS Borders and was established on 6 February April 2016. It assumed responsibility for the delegated health and social care services set out in its Integration Scheme from 1 April 2016. The financial transactions of the Scottish Borders IJB have been consolidated into the Council's group accounts.
- **92.** It is still too early for the Council or its partner to demonstrate any significant examples of new ways of working arising from the integration, the impact or improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is due in spring 2018.

Local scrutiny plan

93. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to Scottish Borders Council on 30 May 2017. It was also presented to the Audit and Scrutiny Committee on 28 June 2017. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Equalities

- 94. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- **95.** We reviewed the current (April 2017) equalities report and concluded the Council has met its statutory duty to:
 - publish information on progress made in mainstreaming equality within the Council
 - report on progress made towards achieving equality outcomes published in 2013
 - publish annual employee information and details of the progress made in gathering and using information to better meet the duty

- publish updated gender pay gap information.
- **96.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

Equal pay

- 97. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. Scottish Borders Council implemented single status in November 2008 and reports that between 2004/05 and 2015/16 it has spent £5.9 million compensating workers who had been unfairly paid and settling equal pay claims.
- **98.** Almost 27,000 equal pay claims across Scotland remain live and Scottish Borders Council still has 46 live claims. Employees could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

Part 5

Value for money



Main judgements

Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial management, financial sustainability and the use of resources, with good progress made since the last Best Value report.

The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

Best Value

- 99. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Scottish Borders Council is planned for later in the five year programme.
- 100. The Best Value audit work carried out this year focussed on the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources. We concluded that the Council has effective arrangements in place regarding these areas, with good progress made since the last Best Value report. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

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

Following the public pound

- **101.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.
- 102. The Council's financial regulations contain reference to following the public pound and refer to the Council's Code of Practice on following the public pound, available to staff through the Council intranet. These emphasise that services must adhere to the Council's guidance for allocating funds to external organisations. However we identified that the Code of Practice has not been updated recently and is not available via the intranet. The financial regulations at the council are required to be updated to reflect the new financial procedures due to the new financial systems in place (see paragraphs 63 and 64), and the introduction of the Scottish Borders Integration Joint Board. We will review these in 2017/18 to confirm that following the public pound requirements are reflected in the regulations.

- 103. The Council's Limited Liability Partnership Strategic Governance Group (LLPSGG) was established in 2015/16 and its remit includes scrutiny of SB Cares, the Council's arm's-length external organisation (ALEO). The LLPSGG meets bimonthly during the year and receives regular updates on the performance of the ALEO.
- 104. The Council set up a new integrated culture and sports trust, Live Borders, which replaced the previous Borders Sport and Leisure Trust (BSLT) from April 2016. This trust provides arts, libraries, museums and galleries services previously provided by the Council, as well as the sport and leisure facilities previously provided by BSLT. As part of the process for forming the new trust a performance management framework was agreed and approved by the Council's Executive Committee. This set out the monitoring arrangements to be put in place, including quarterly reporting to a joint group of council and trust officers, as well as twice yearly reporting to the Executive Committee.
- **105.** We concluded that the Council has adequate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound. However improvements are required to ensure that guidance is up to date and readily available to staff.

Performance management

- **106.** The Council participates in the <u>Local Government Benchmarking Framework</u> (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them
- 107. Additionally, the Council's Executive Committee receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities as set out in its Corporate Plan which was updated in October 2015. The performance reports are also made available to the public through the performance section of the Council's website. Based on the annual report submitted to the Executive Committee in June 2017 a number of positives were highlighted including:
 - With 91.3% of its 16 to 19 years old in education, training or employment, Scottish Borders exceeded the national rate of 90.4%, and initial positive destinations (after school) remain higher than the national rate, at 94.2% (down only slightly from 95.2% last year);
 - An improvement in the process for social work assessments resulted in 100% of new service users receiving a service within 6 weeks of an assessment for Q4 of 2016/17;
 - During 2016/17, 84.3% of complaints received by the Council were closed within 5 working days (Stage 1), down only slightly from last year (85.2%). However, the Council's performance at Stage 2 improved significantly, from 77.5% of complaints closed within 20 working days in 2015/16 to 84% in 2016/17.
- 108. At the same time the Council recognises that it has to improve service delivery in a number of key areas such as time taken to respond to complaints, proportion of Looked After Children (aged 12+) in a family-based placement and improving road safety.

Statutory performance indicators (SPIs)

- 109. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.
- 110. For 2016/17 two SPIs were prescribed:
 - SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
 - SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- **111.** We placed reliance on the work of Internal Audit and concluded that the Council's arrangements for publication are satisfactory.

Local performance audit work - housing benefit service

- **112.** A risk assessment of the Council's housing benefit service was carried out in August 2017. The last risk assessment was carried out in March 2014.
- **113.** We recently issued a report to management identifying six risk areas. We have asked officers to provide an action plan to address these risks. We expect the report will come to the Audit and Scrutiny Committee when concluded.

National performance audit reports

- **114.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in Appendix 3 (page 31).
- **115.** The Council has good arrangements in place for considering national reports issued during the year, with the reports being considered by the Audit and Scrutiny Committee.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement







Page no.

Issue/risk

Recommendation

Agreed management action/timing

8

1. Charitable trust assets

Our audit work on the Council's seven charitable trusts noted issues with the identification and valuation of assets included in their accounts.

There is a risk that the values of assets in the trusts' accounts are not accurate.

The Council should carry out a review of trusts assets to ensure that they are being accurately reported. Agreed – This will be reviewed during 2017/18.

Responsible officer

Chief Financial Officer

Agreed date

31 March 2018

10 2. Group accounts

The figures in the Council's group accounts are based on the unaudited accounts for the components included in the group.

There is a risk that the figures are not accurate and that the audited accounts of the entities could be significantly different from the unaudited figures used.

The Council should request that audited accounts for the group entities are received earlier to allow audited figures be used for consolidation into the group accounts.

Agreed – The Council will write to partners and their auditors to ensure audited figures are available as part of the 2017/18 audit process.

Responsible officer

Chief Financial Officer

Agreed date

31 March 2018

12 3. Savings

The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2016/17 was achieved on a non-recurring basis.

There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.

The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.

Agreed – Savings not delivered in year are already carried forward as part of the budget process to be amended. The focus of the management team will be on maximisation of recurrent savings as part of the 2018/19 and future budget process.

Responsible officer

Chief Executive

Agreed date

8 February 2018

Page 82



Page Issue/ris



Recommendation



Agreed management action/timing

15

no.

4. Financial planning

Although the council has a five year financial strategy, in line with good practice, which is regularly reviewed and considered as part of annual budgeting, the strategy does not include longer term scenario planning in line with best practice.

We would recommend that a degree of longer term scenario planning is included within the budgeting process.

Agreed – Longer term scenario planning and beyond 5 years will be incorporated into the budget process for 2018/19.

Responsible officer

Chief Financial Officer

Agreed date

8 February 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Αι	udit risk	Assurance procedure	Results and conclusions			
Ri	Risks of material misstatement in the financial statements					
1	Risk of management override of controls	Detailed testing of journal entries.	No unusual or inappropriate transactions were identified as			
	ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Review of accounting estimates.	part of detailed testing of journal entries.			
		Focused testing of accruals and prepayments.	A review of accounting estimates did not show any instance of bias.			
		Evaluation of significant transactions that are outside the normal course of business.	Focussed testing of regularity and cut-off assertions did not reveal any lapses in controls.			
			No significant transactions outside the normal course of Council business were identified			
2	Risk of fraud over income Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	Analytical procedures on income streams.	Sample testing of income transactions confirmed that these			
		Detailed testing of revenue transactions focusing on the areas of greatest risk.	were in the normal course of business.			
			We obtained satisfactory explanations for any significant increases or decreases in income.			
			Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over income.			
3	Risk of fraud over expenditure	Fraud Initiative matches. Assessing the overarching	Sample testing of expenditure transactions to confirm that these			
	Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. Scottish Borders Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.		were in the normal course of business.			
		Detailed testing of expenditure and housing benefit transactions.	We obtained satisfactory explanations for any significant increases or decreases in expenditure.			
			Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over expenditure.			

Audit risk Assurance procedure Results and conclusions 4 Estimation and judgements Completion of 'review of the Our work on the review of the work of an expert' for the professional valuer confirmed that There is a significant degree of professional valuer. we could rely on the asset subjectivity in the measurement valuation information being and valuation of the material Focused substantive testing of provided. account areas of non-current key areas. assets, pensions and Testing of the key areas did not provisions. This subjectivity identify issues with the estimates represents an increased risk of or judgements being used. misstatement in the financial Our conclusion is that the statements. estimates and judgements used are appropriate. Review treatment as part of 5 Integration Joint Board (IJB) / We reviewed the inclusion of the financial statements audit. **Group accounts** IJB accounts in the group financial statements as part of our The Scottish Borders IJB was year end audit work. established on 6 February 2016 and assumed responsibility for We confirmed that the IJB had delegated services from 1 April been correctly accounted for in 2016. The IJB will need to be the group accounts. accounted for in the Council's group financial statements for the first time in 2016/17. There is a risk that the IJB is not correctly accounted for in the group financial statements. Change in financial systems On-going discussions with We met with officers during the finance officers on progress year and confirmed an The Council is replacing its with the preparation of the appropriate timetable was in general ledger and other financial statements and place for the preparation of the financial systems with Business discussions on the accounts. World Enterprise Resource accounts/audit timetable. Solution (ERP) from April 2017. We tested manual accruals and As part of this replacement the Increased testing of adjustments at the year end. No existing general ledger close transactions and balances issues were identified from this down will take place around around the year end. testina. three weeks earlier than normal. There is a risk that there will be a substantial amount of manual accruals and adjustments required as part of this process. The audit timetable may also be affected by absences of key staff at key periods, which will require

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

7 Financial sustainability

careful planning.

The 2017/18 Scottish Budget outlined significant reductions for councils' revenue grants. The financial settlement for Scottish Borders Council was a reduction of 4.1 per cent, significantly greater than the assumed 2.0 per cent reduction

Review budget setting process and monitor updates provided to members.

Comment in Annual Audit Report.

The budget setting process was reviewed along with the financial monitoring reports provided to members of the Council's Executive Committee during the year.

We found that the Council has an effective budget setting process in

Δ	udit risk	Assurance procedure	Results and conclusions
A	outlined in the medium term financial plan agreed in February 2016. Following an announcement of additional funding of £2.9 million in February 2017, the funding gap for 2017/18 is now £6.6 million. There is a risk that the Council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.	Assurance procedure	place. Comments on financial sustainability have been made in Part 3 of this report.
8	Local government elections The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland How Councils Work publication on the role of councillors provides guidance in this area.	Review of the Council's induction and training arrangements for councillors following the elections. Assess the effectiveness of decision making and scrutiny arrangements as part of ongoing audit work.	We met with officers to discuss the training arrangements in place for councillors and assessed the content of the planned induction programme. We concluded that effective arrangements in place to provide councillors with the required training for their role.
9	Transition to new ICT provider During 2016 the Council contracted CGI to provide ICT services for a period of at least 13 years, as part of the Council's Transformation Programme. This included the majority of the Council's existing ICT staff transferring to CGI in October 2016 as part of the contract. There are risks that the new ICT arrangements do not deliver the anticipated efficiencies or services may not be delivered to the standards	Monitor the effectiveness of governance and risk management arrangements relating to the ICT contract.	We reviewed the governance arrangements and board papers relating to the monitoring of the contract. We also placed reliance on internal audit work regarding the arrangements in place. We concluded that appropriate arrangements were in place to monitor and manage the ICT contract.

prescribed in the contract.

Appendix 3

Summary of national performance reports 2016/17



Apr		
May	Common Agricultural Policy Futures programme: an update	
Jun	South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland
Jul	Audit of higher education in Scottish universities	Supporting Scotland's economic growth
Aug	Maintaining Scotland's roads: a follow-up report Superfast broad for Scotland: a progress upda	Scotland's
Sept	Social work in Scotland	Scotland's new financial powers
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report
Jan		
Feb	Scotland's NHS workforce	
Mar	Local government in Scotland: Performance and challenges 2017 i6: a review	Managing new financial powers: an update

Local government relevant reports

The National Fraud Initiative in Scotland - June 2016

Social work in Scotland - September 2016

How councils work - Roles and working relationships in councils - November 2016

Local government in Scotland: Financial overview 2015/16 - November 2016

<u>Local government in Scotland: Performance and challenges 2017</u> – March 2017 Page 87

Scottish Borders Council

2016/17 Annual Audit Report

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Audit and Scrutiny Committee Scottish Borders Council Newtown St Boswells TD6 OSA

25 September 2017

Dear Audit and Scrutiny Committee Members

Charitable Trusts administered by Scottish Borders Council Report to those charged with governance on the 2016/17 audit

- An audit is required for all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) Regulations 2006. The auditor of Scottish Borders Council, Audit Scotland, has been appointed as the auditor of the relevant trusts.
- International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The Members of the Audit and Scrutiny Committee of Scottish Borders Council are identified as those charged with governance. The trustees of the charities are the elected members of Scottish Borders Council.
- 3. This report sets out for the Audit and Scrutiny Committee's consideration, the matters arising from the audit of the financial statements for 2016/17 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Scottish Borders Council, as the trustees of the registered charitable trusts listed at Appendix A, and no responsibility to any third party is accepted.
- 4. Our audit work is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of revised sets of financial statements for review, we anticipate being able to issue unqualified auditor's reports on 29 September 2017 (the proposed reports are attached at Appendix B). There are no anticipated modifications to the audit reports.
- 5. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any

- subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
- 6. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
- 7. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
- 8. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- 9. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
- 10. The statement of recommended practice (SORP) based on the 'FRSSE' financial reporting standard for smaller entities became effective from 1 January 2015, and during 2015/16 the Trusts transitioned to this SORP for the preparation of the 2015-16 financial statements. However, this 'FRSSE' has been withdrawn and no longer applies in 2016/17. Charities are required to apply the SORP based on Financial reporting standard (FRS) 102 when preparing their accounts on an accruals basis. FRS102 SORP had not been followed in the preparation of the 2016/17 accounts and therefore some presentational adjustments were required to align the disclosures in the accounts to the SORP.
- 11. The Ormiston Trust for Institute accounts included its tangible asset in the balance sheet at a value of £216k. When reviewing the asset register we identified that the value within the accounts had been overstated by £17k. This is material in the context of the trust accounts. The value of the asset was required to be corrected in the audited version of the accounts.
- 12. During the audit of the Charitable Trusts, management advised us that land (£86K) and investments (£6k) owned by the Ormiston Trust for Institute had been historically included in the books of one of the unregistered Trusts, not subject to our audit. Management has amended the relevant figures and disclosures.
- 13. As part of the completion of our audit we seek written assurances from management on aspects of the financial statements and judgements and estimates made. A letter of representation template under ISA580 is attached at Appendix C. This should be signed and returned by the Chief Financial Officer with the signed financial statements prior to the independent auditor's opinions being certified.

Yours faithfully,

Appendix A - Registered Charitable Trusts of Scottish Borders Council

The following is the list of Trusts which are administered by Scottish Borders Council:

- Scottish Borders Council Common Good Funds (Registered Charity No. SC031538)
- Scottish Borders Council Charitable Trusts (Registered Charity No. SCO43896) comprising 76
 Trusts and Bequests
- Scottish Borders Council Community Enhancement Trust (Registered Charity No. SC044764)
- Scottish Borders Council Education Trust (Registered Charity No. SC044762)
- Scottish Borders Council Ormiston Trust for Institute (Registered Charity No. SCO19162)
- Scottish Borders Council Thomas Howden Wildlife Award Fund (Registered Charity No.SCO15647)
- Scottish Borders Council Welfare Trust (Registered Charity No. SCO44765)

APPENDIX B: Proposed Independent Auditor's Report (Scottish Borders Council Charitable Trusts/ Scottish Borders Council Common Good Funds/ Scottish Borders Council Community Enhancement Trust/Scottish Borders Council Education Trust/ Scottish Borders Council Ormiston Trust for Institute/Scottish Borders Council Thomas Howden Wildlife Award Fund/Scottish Borders Council Welfare Trust)

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts/Scottish Borders Council Common Good Funds/ Scottish Borders Council Community Enhancement Trust/Scottish Borders Council Education Trust/ Scottish Borders Council Ormiston Trust for Institute/Scottish Borders Council Thomas Howden Wildlife Award Fund/Scottish Borders Council Welfare Trust) and the Accounts Commission (include/delete as appropriate)

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Charitable Trusts/Scottish Borders Council Common Good Funds/ Scottish Borders Council Community Enhancement Trust/Scottish Borders Council Education Trust/ Scottish Borders Council Ormiston Trust for Institute/Scottish Borders Council Thomas Howden Wildlife Award Fund/Scottish Borders Council Welfare Trust (*include/delete as appropriate*) for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its
incoming resources and application of resources for the year then ended;
have been properly prepared in accordance with United Kingdom Generally Accepted Accounting
Practice; and
have been prepared in accordance with the requirements of the Charities and Trustee
Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland)
Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I).. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

l an	n required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:
	proper accounting records have not been kept; or
	the financial statements are not in agreement with the accounting records; or
	I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 4th Floor 8 Nelson Mandela Place Glasgow G2 1BT

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973

APPENDIX C: Letter of Representation (ISA 580)

Asif A Haseeb OBE Audit Scotland 4th Floor 8 Nelson Mandela Place Glasgow G2 1BT 25 September 2017

Dear Mr Haseeb

Scottish Borders Council Charitable Trusts
Scottish Borders Council Common Good Funds
Scottish Borders Council Community Enhancement Trust
Scottish Borders Council Education Trust
Scottish Borders Council Ormiston Trust for Institute
Scottish Borders Council Thomas Howden Wildlife Award Fund
Scottish Borders Council Welfare Trust

- 1. This representation letter is provided in connection with your audit of the financial statements of the registered charitable trusts listed above for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view/ properly present the financial position of each of these registered charitable trusts as at 31 March 2017 and its statement of financial activities for the year then ended.
- 2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the trustees of the registered charitable trusts, the following representations given to you in connection with your audit for the year ended 31 March 2017.

General

- 3. I acknowledge my responsibility and that of Scottish Borders Council (as the administering authority of the Charitable Trusts) for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Charitable Trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
- 4. I confirm that these seven trusts presented for audit are all the trusts that require an audit.
- 5. The information given in the Trustees Annual Reports to the financial statements, present a balanced picture of the Charitable Trusts and are consistent with the financial statements.
- 6. I confirm that there are no uncorrected misstatements to the financial statements.

Regularity of Financial Transactions

7. The financial transactions of the Charitable Trusts are in accordance with the relevant legislation and regulations governing its activities and expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

Financial Reporting Framework

- 8. The financial statements of the Scottish Borders Council Charitable Trusts, Scottish Borders Council Common Good Funds, Scottish Borders Council Community Enhancement Trust, Scottish Borders Council Education Trust, Scottish Borders Council Ormiston Trust for Institute, Scottish Borders Council Thomas Howden Wildlife Award Fund and Scottish Borders Council Welfare Trust have been prepared in accordance with the requirements of the Charities Statement of Recommended Practice (SORP): Financial Reporting Standard 102 (FRS 102) and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.
- Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view/properly present the transactions and state of affairs of Charitable Trusts for the year ended 31 March 2017.

Accounting Policies & Estimates

- 10. The Trustees' Annual Reports and Financial Statements of the Scottish Borders Council Charitable Trusts, Scottish Borders Council Common Good Funds, Scottish Borders Council Community Enhancement Trust, Scottish Borders Council Education Trust, Scottish Borders Council Ormiston Trust for Institute, Scottish Borders Council Thomas Howden Wildlife Award Fund and Scottish Borders Council Welfare Trust have been prepared on an accruals basis as per applicable regulations and the founding documents of each Trust.
- 11. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

12. The Trustees have assessed the ability of the registered charitable trusts to carry on as a going concern, and have disclosed in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

13. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24.

Events Subsequent to the Date of the Balance Sheet

14. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

15. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

16. I confirm that there are no issues or deficiencies in internal control that require to be disclosed.

Fraud

17. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

18. The assets shown in the Balance Sheet at 31 March 2017 were complete and were owned by Charitable Trusts, other than assets which have been purchased under finance leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

19. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the relevant financial reporting framework. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Yours sincerely

David Robertson Chief Financial Officer





Please ask for:

Bristol Building Newtown St Boswells Melrose, TD6 0SA

01835 826 700 sbcares.co.uk

PRIVATE & CONFIDENTIAL

Philip Barr Our Ref: KPMG/PB/CH KPMG LLP

Your Ref: 20 Castle Terrace E-Mail:

PBarr@scotborders.gov.uk Edinburgh Date: 18th September 2017 EH1 2EG

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Scottish Borders Supports LLP ("the LLP"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- as to whether these financial statements give a true and fair view of the state of the Partnership's affairs as at 31 March 2017 and of the LLP's profit or loss for the financial year then ended;
- whether the financial statements have been properly prepared in accordance with UK Generally ii. Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101")); and
- whether the financial statements have been prepared in accordance with the requirements of the iii. Companies Act 2006.

These financial statements comprise the Balance Sheet, the Profit and Loss Account, Statement of Other Comprehensive Income, the Statement of Changes in Net Assets Attributable to Partners and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that the LLP meets the definition of a qualifying entity and meets the criteria for applying FRS 101.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 23 March 2016, for the preparation of financial statements that:



- i. give a true and fair view of the state of the LLP's affairs as at the end of its financial year and of its profit or loss for that financial year;
- ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 101); and
- iii. have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis.

- 2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.
- 3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* as applied under FRS 101, requires adjustment or disclosure have been adjusted or disclosed.
- 4. In respect of the restatement *capitalising rehabilitation assets purchased in the prior financial period ending 31*st *March 2016,* made to correct a material misstatement in the prior period financial statements, the Board confirms that the restatement is appropriate.

Information provided

- 5. The Board has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Board for the purpose of the audit; and
 - unrestricted access to persons within the LLP from whom you determined it necessary to obtain audit evidence.
- 6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 7. The Board confirms the following:
 - i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Board has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the LLP and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the LLP's financial statements communicated by employees, former employees, analysts, regulators or others.



In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

- 8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- 9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as applied under FRS 101, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 10. The Board has disclosed to you the identity of the LLP's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures, as applied under FRS 101. The Board confirms that the LLP has taken advantage of the exemption in FRS 101 paragraph 8 (k) and has therefore not included the exempted information in the financial statements.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24.

11. The Board confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the LLP's ability to continue as a going concern as required to provide a true and fair view.
- b) No events or circumstances have been identified that may cast significant doubt on the ability of the LLP to continue as a going concern.

This letter was approved for signature on 18th September 2017.

Yours faithfully,

Phillip Barr Managing Director



Appendix to the Board Representation Letter of Scottish Borders Supports LLP: Definitions

Criteria for applying FRS 101

- The LLP's members have been notified in writing about, and do not object to, the use of the disclosure exemptions
- The LLP otherwise applies as its financial reporting framework the recognition, measurement and disclosure requirements of IFRS as adopted by the EU, but makes amendments to IFRS as adopted by the EU requirements where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, given that the financial statements that it prepares are Companies Act accounts as defined in section 395(1)(a) of the Companies Act 2006, not IAS accounts as defined in section 395(1)(b) of the Companies Act 2006.
- The LLP discloses in the notes to its financial statements:
 - a) A brief narrative summary of the disclosure exemptions adopted; and
 - b) The name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained

Financial Statements

A complete set of financial statements (before taking advantage of any of the FRS 101 disclosure exemptions) comprises:

- a Balance Sheet as at the end of the period;
- a Profit and Loss account for the period;
- a Statement of Other Comprehensive Income;
- a Statement of Changes in Equity for the period;
- a Statement of Cash Flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

"Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.



Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Qualifying Entity

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation by means of full consolidation.

A charity may not be a qualifying entity.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).



- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.







SB Cares
Bristol Building
Newtown St Boswells
Melrose, TD6 0SA

01835 826 700 sbcares.co.uk

PRIVATE & CONFIDENTIAL

KPMG LLP 20 Castle Terrace Edinburgh Please ask for: Philip Barr
Our Ref: KPMG/PB/CH

Your Ref:

E-Mail: PBarr@scotborders.gov.uk

Date: 18th September 2017

Dear Sirs

EH1 2EG

This representation letter is provided in connection with your audit of the financial statements of Scottish Borders Cares LLP ("the Partnership"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Partnership's affairs as at 31 March 2017 and of the LLP's profit or loss for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101")); and
- iii. whether the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements comprise the Balance Sheet, the Profit and Loss Account, Statement of Other Comprehensive Income, the Statement of Changes in Net Assets Attributable to Partners and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that the LLP meets the definition of a qualifying entity and meets the criteria for applying FRS 101.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:



Financial statements

- 1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 23 March 2016, for the preparation of financial statements that:
 - i. give a true and fair view of the state of the LLP's affairs as at the end of its financial year and of its profit or loss for that financial year;
 - ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 101); and
 - iii. have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis.

- 2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.
- 3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* as applied under FRS 101, requires adjustment or disclosure have been adjusted or disclosed.
- 4. In respect of the restatement *capitalising rehabilitation assets purchased in the prior financial period ending 31*st *March 2016,* made to correct a material misstatement in the prior period financial statements, the Board confirms that the restatement is appropriate.

Information provided

- 5. The Board has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Board for the purpose of the audit; and
 - unrestricted access to persons within the LLP from whom you determined it necessary to obtain audit evidence.
- 6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 7. The Board confirms the following:
 - i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Board has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the LLP and involves:
 - management;



- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the LLP's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

- 8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- 9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as applied under FRS 101, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 10. The Board has disclosed to you the identity of the LLP's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures, as applied under FRS 101. The Board confirms that the LLP has taken advantage of the exemption in FRS 101 paragraph 8 (k) and has therefore not included the exempted information in the financial statements.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24.

11. The Board confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the LLP's ability to continue as a going concern as required to provide a true and fair view.
- b) No events or circumstances have been identified that may cast significant doubt on the ability of the LLP to continue as a going concern.
- 12. On the basis of the process established by the Board and having made appropriate enquiries, the Board is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with IAS 19 (Revised) Employee Benefits, as applied under FRS 101.

The Board further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,



have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was approved for signature on 18th September 2017.

Yours faithfully,

Phillip Barr Managing Director

Appendix to the Board Representation Letter of Scottish Borders Cares LLP: Definitions

Criteria for applying FRS 101

- The LLP's members have been notified in writing about, and do not object to, the use of the disclosure exemptions.
- The LLP otherwise applies as its financial reporting framework the recognition, measurement and disclosure requirements of IFRS as adopted by the EU, but makes amendments to IFRS as adopted by the EU requirements where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, given that the financial statements that it prepares are Companies Act accounts as defined in section 395(1)(a) of the Companies Act 2006, not IAS accounts as defined in section 395(1)(b) of the Companies Act 2006.
- The LLP discloses in the notes to its financial statements:
 - a) A brief narrative summary of the disclosure exemptions adopted; and
 - b) The name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained

Financial Statements

A complete set of financial statements (before taking advantage of any of the FRS 101 disclosure exemptions) comprises:

- a Balance Sheet as at the end of the period;
- a Profit and Loss account for the period;
- a Statement of Other Comprehensive Income;
- a Statement of Changes in Equity for the period;
- a Statement of Cash Flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

"Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.



Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Qualifying Entity

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation by means of full consolidation.

A charity may not be a qualifying entity.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).



- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.





SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2016/17

Report by Chief Financial Officer

AUDIT & SCRUTINY COMMITTEE

25 SEPTEMBER 2017

1 PURPOSE AND SUMMARY

- 1.1 This report presents Members with copies of the Council's audited Annual Accounts for 2016/17.
- 1.2 The audit appointment of Audit Scotland for Scottish Borders Council accounts includes the requirement to provide an auditor's report for the Council as well as related charities. KPMG has continued to provide the external audit of the Council subsidiaries SBCares, SBSupports and Bridge Homes which are not registered charities. KPMG has concluded their Audit and have provided their audit opinion with no issues raised and no matters to report.
- 1.3 2016/17 represents the first year of Audit Scotland undertaking the External Audit of the Council's Annual Accounts with the process now completed. Audit Scotland has prepared the Annual Audit Report as attached on this agenda and has provided an unqualified independent audit opinion.
- 1.4 The Annual Audit Report summarises Audit Scotland's conclusions, including:
 - An unqualified audit opinion
 - Audit Scotland concur with management's accounting treatment and judgements;
 - Audit Scotland concluded positively in respect of financial management, financial sustainability, governance and transparency and value for money.
- 1.5 Audit Scotland identified four recommendations for improvement requiring action and these have been accepted by management and will be enacted within the agreed timescales.
- 1.6 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 have been presented to the Audit & Scrutiny Committee prior to signature.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit & Scrutiny Committee review the following audited Accounts and approve their submission to Council along with any comments or observations from Members:
 - (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2017 (Appendix 1);
 - (b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2017 (Appendix 2);
 - (c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2017 (Appendix 3);
 - (d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(i));
 - (e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(ii));
 - (f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iii));
 - (g) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(iv));
 - (h) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(v));
 - (i) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2017 (Appendix 4(vi));
 - (j) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2017 (Appendix 5);
 - (k) the SB Supports audited Annual Accounts for the year to 31 March 2017 (Appendix 6 (i)); and
 - (I) the SB Cares audited Annual Accounts for the year to the 31 March 2017 (Appendix 6 (ii)).

3 BACKGROUND

- 3.1 The various sets of unaudited accounts for 2016/17 were submitted to Audit Scotland and KPMG, the External Auditors, before the statutory deadline of 30 June 2017, following presentation of the draft accounts to the Audit & Scrutiny Committee at the June meeting. External Auditors 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 3 July 2017. 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 2017.
- 3.4 Following approval, the 2014 Regulations have the following requirements as set out in Part 3 Section 10 (3):

Immediately **following the approval of the Annual Accounts** for signature, the statements which form part of those accounts are to be signed and dated as follows—

- (a) the management commentary by the 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 2017 (Appendix 1)
 - Scottish Borders Council's Pension Fund Annual Accounts for year ending 31 March 2017 (Appendix 2)
 - Scottish Borders Council Common Good Funds (Charity SC031538) Annual Accounts for the year to 31 March 2017 (Appendix 3)
 - **SBC Welfare Trus**t (Charity SC044765) Annual Accounts for the year to 31 March 2017 (Appendix 4(i))
 - **SBC Education Trust** (Charity SC044762) Annual Accounts for the year to 31 March 2017 (Appendix 4 (ii))
 - **SBC Community Enhancement Trust** (Charity SC044764) Annual Accounts for the year to 31 March 2017 (Appendix 4 (iii))
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 - Scottish Borders Council Charity Funds' (Charity SC043896)
 Annual Accounts for the year to 31 March 2017 (Appendix 4 (vi))
 - **Bridge Homes LLP** Annual Accounts for the year to 31 March 2017 (Appendix 5);
 - **SB Supports** Annual Accounts for the year to 31 March 2017 (Appendix 6 (i))
 - **SB Cares** Annual Accounts for the year to the 31 March 2017 (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 2017. 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 2016/17

- 4.1 Audit Scotland and KPMG have now completed their audits and all of the Annual Accounts contained in Appendices 1 6 have received an unqualified independent audit opinion.
- 4.2 KPMG has concluded their Audit of SBCares, SBSupports and Bridge Homes and have provided their audit opinion with no issues raised and no matters to report.

- 4.3 Audit Scotland's associated Annual Audit Reports of Scottish Borders Council, Pension Fund and subsidiary charities are presented on this agenda. As well as being unqualified, the report expresses the following headlines:
 - Audit Scotland concur with management's accounting treatment and judgements;
 - Audit Scotland concluded positively in respect of financial management, financial sustainability, governance and transparency and value for money.
- 4.4 The Scottish Borders Council Annual Audit Report highlighted four specific recommendations for improvement. The areas in question are shown in Appendix 1 "Action Plan 2016/17" of the External Auditor's Annual Audit Report. The areas identified are:
 - The Council should carry out a review of trusts assets to ensure that they are being accurately reported;
 - The Council should request that audited accounts for the group entities are received earlier to allow audited figures be used for consolidation into the group accounts;
 - The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years;
 - We would recommend that a degree of longer term scenario planning is included within the budgeting process.

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

- 4.5 The Scottish Borders Council's Pension Fund Annual Audit report highlighted 3 recommendations. The areas in question are shown in Appendix 1 "Action Plan 2016/17" of the External Auditor's Annual Pension Fund Audit Report. The areas identified are:
 - Resource requirement of the Pension Fund should be assessed and addressed to ensure administration of the Fund is efficient and effective.
 - The Internal Audit Annual Report should include a specific reference to Scottish Borders Council Pension Fund, as their work over the systems and controls in place at Scottish Borders Council covers the same systems for the Pension Fund, and the Pension Fund Governance statement refers to Internal Audit assurance over their controls and systems.
 - CIPFA disclosure checklist and example accounts guidance should be used to ensure disclosures are complete.

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

5 IMPLICATIONS

5.1 Financial

There are no additional direct financial implications for the Council arising 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 Scrutiny 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 2017 Audit & Scrutiny Committee

25 September 2017 Audit & Scrutiny 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 2017



Scottish Borders Council

Annual Accounts 2016/17

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Foreword by the Leader of the Council

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

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

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

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

Highlights of 2016/17

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

- ✓ Signed a 13 year contract with CGI to establish a digital services partnership;
- ✓ Achieved £8.9m of planned Financial Plan savings on a permanent recurring basis;
- Delivered £261.6m of revenue spending within budget;
- ✓ Delivered Capital Investment of £51.8m in schools, flood protection, roads, lighting and other assets:

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

Our Plans for 2017/18

The next year presents many opportunities for the Council including:

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

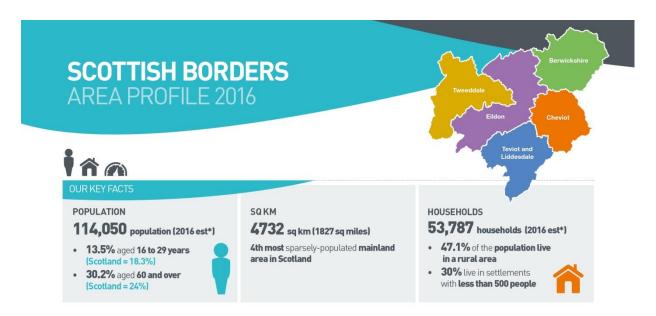
The Council has committed to an ambitious Corporate Transformation Programme to deliver service improvements and savings. These will make the Council and its services sustainable within the reducing resource environment of the Public Sector.

2017/18 represents the final year of the original 5 year revenue Financial Plan established in 2013/14. During this period from 2013/14 to 2016/17 the Plan has delivered cumulative savings of £26.87m alongside significant improvements in performance set out on pages 16 - 23 and I look forward to setting the Administration's new 5 year plan for 2018/19.

Councillor Shona Haslam

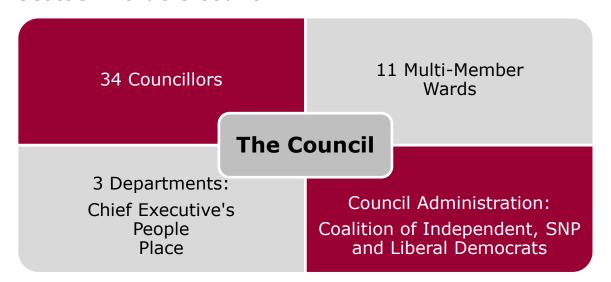
Leader Scottish Borders Council

About Scottish Borders Council



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

Scottish Borders Council



Scottish Borders Council highlights 2016/17

CGI contract signed

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



Langlee Primary School new build

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



Digital connectivity

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

Preparation for launch of Business World

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



Partnership working

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

Borders Railway blueprint

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



Sustainable Transport

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



Street Light Energy Efficiency Programme (SLEEP)

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



Strategic Direction

Our Vision

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

Source: Corporate Plan 2013 - 2018

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



Financial Strategy

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

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

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

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

Risk

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

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

Financial Plans

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

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

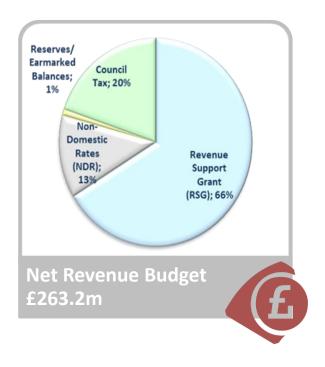
The Capital Financial Plan aims to ensure that capital borrowing is within prudential borrowing limits and remains sustainable in the longer term. In this regard it is important to recognise that capital investment decisions taken now have long term borrowing and revenue implications which have the potential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

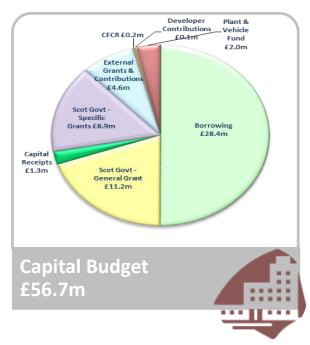
The Financial Strategy, the Financial Plans and the Treasury Management Strategy are approved by Council annually in February.

How are we are doing? - Financial Performance

2016/17 Financial Resources Available

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





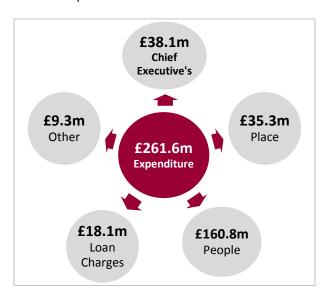
Financial Position at 31 March 2017

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

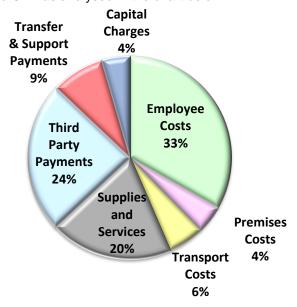
Revenue

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

The following chart analyses the revenue by Council department:



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



Capital

The actual outturn for the financial year 2016/17, including funding sources, was a capital expenditure of £51.8m representing a favourable variance of £3.0m (6.2%) against the revised budget, made up of £2.2m timing movement into future years and an underspend of £0.8m.

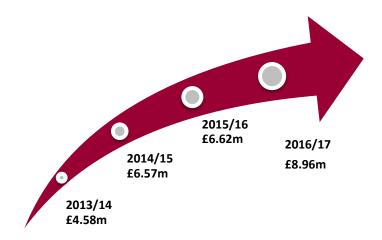


The capital programme delivered significant investment in the Scottish Borders during 2016/17 and the following table highlights some of the major projects undertaken:



Delivery of Targeted Savings

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



Financial Plan Savings delivered permanently



Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 41 shows the accounting cost of providing services rather than the cost of services which requires to be funded by taxation.

Net Cost of Services

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

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2017. This results in the (statutory accounting) adjusted net cost of services of £263.8m compared with the reported departmental net cost of services of £261.6m. Note 5, page 58 provides additional analysis of the movement between these figures. It should be noted that there has been a significant increase in the gross expenditure and gross income reported within the net cost of services during 2016/17. This increase, in both expenditure and income, can be attributed to the contribution of £42.237m made to the Integration Joint Board (IJB) with NHS Borders and the corresponding income received from the IJB for the commissioning of services from the Council.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 41 to include net gains/losses on disposal and revaluation of assets, interest payable and adjustments for pension costs. These accounting adjustments result in an overall Deficit on the Provision of Council Services for the year of £5.3m.

Other Comprehensive Income and Expenditure

The movement in the Comprehensive Income and Expenditure statement between 2015/16 and 2016/17 of £10.1m can primarily be attributed to a one-off payment during 2016/17 to Transport Scotland for £7.7m in order to buy out a long term contractual liability along with a reduction in the level of Earmarked Balances between 2015/16 and 2016/17. The level of Earmarked Balances is expected to vary year to year depending on the timing of programmes of work.

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

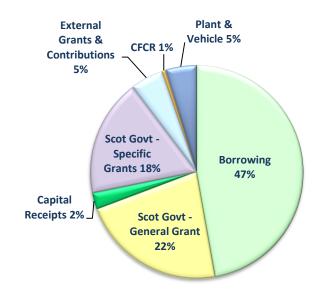
Capital Financing Requirement

In addition to the capital expenditure on fixed and intangible assets of £51.8m the Council utilised the Scottish Government's Consent to Borrow provision to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP (£2.2m on 22 properties).

The chart shows the profile of the sources of the total £51.8m capital financing requirement for 2016/17.

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

Actual Capital Financing 2016/17



Treasury and Debt Management

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

Cash Management

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

Debt Management

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

External Debt

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

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

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

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

As at 31 March 2017 the total General Fund Reserve Balance is £18.3m (£23.2m at 31 March 2016) a decrease of £4.9m during the year. The decrease, as can be seen from the chart below, can mainly be attributed to the reduction in Earmarked Balances the value of which will vary from year to year.



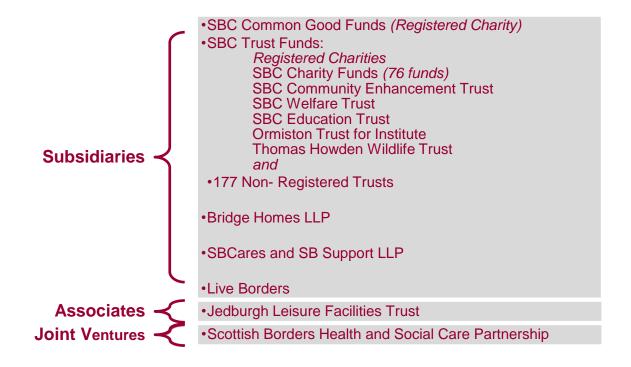
Within the detail of the movements there are the following key changes during 2016/17:

Non-Allocated Reserves

Drawdown to support IT transformation	(£1.284m)
Drawdown to support the 2016/17 Financial Plan	(£0.160m)
Increase from 2016/17 year end outturn and technical adjustments	£0.204m
Reserves Allocated for Specific Plans - net effect of:	
Increase to IT transformation reserve	£2.000m
Increase to adverse weather reserve	£0.200m
Financial Plan adjustments	£1.181m
Drawdown from Allocated balances for specific purposes	(£0.845m)

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2017 with a comparator year ending 31 March 2016. The Group Accounts for 2016/17 can be found from page 99. The establishment of a new integrated Sport & Culture Trust (Live Borders) in April 2016 has resulted in the previous Associate Borders Sport & Leisure Trust (BSLT) being removed from the Group and Live Borders being included as a Subsidiary. The Scottish Borders Health and Social Care Partnership have also been consolidated into the Group Accounts for the first time this year. The Integrated Joint Board with NHS Borders was established on 6th February 2016, however there were no material transactions during 2015/16 which would have required consolidation into the 2015/16 Group Accounts. The Group comprises of the following:



Going concern

The Council's Balance Sheet is shown on pages 42 - 43. The value of the net liabilities of £2.236m at 31st March 2017 exceeds the value of distributable reserves held by the Council. This is, however, only a snap shot view which is fundamentally affected by the pension fund liability (£216m) calculated at this point in time. The actuarial valuation, which takes a longer term view of liabilities as they are more likely to actually fall due in future years, will appropriately apply future revenue streams from a combination of investments, employer contributions and employee contributions to meet the financing of these liabilities. It is therefore considered appropriate to continue to adopt a 'going concern' basis for the preparation of these financial statements.

How are we doing?

Our Priorities

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



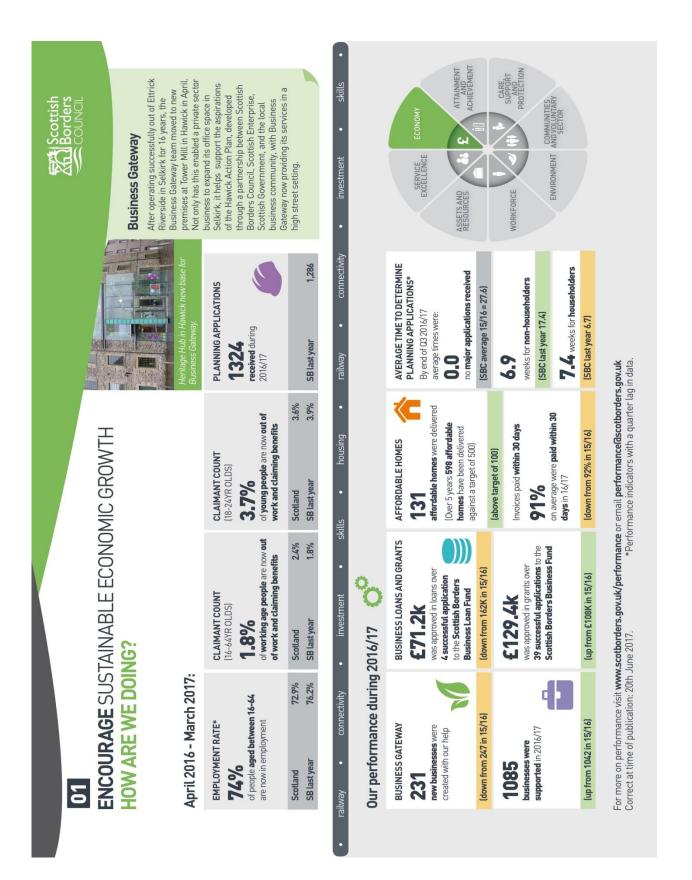
www.scotborders.gov.uk/corporateplan

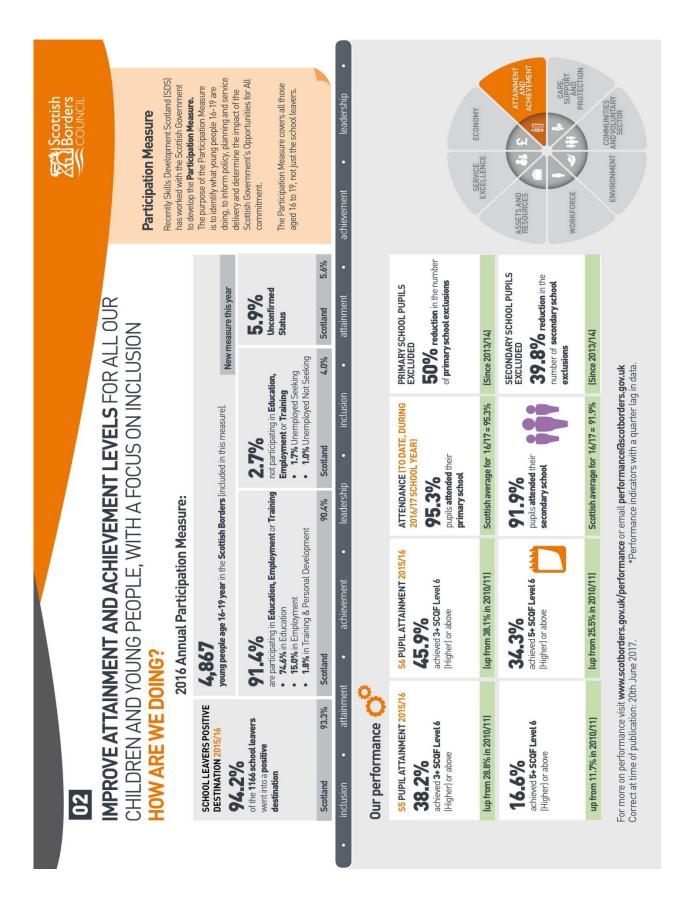
www.scotborders.gov.uk/businessplans

www.scotborders.gov.uk/performance

Performance against our corporate priorities

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







PROVIDE HIGH QUALITY SUPPORT, CARE AND PROTECTION

TO CHILDREN, YOUNG PEOPLE, ADULTS, FAMILIES, AND OLDER PEOPLE HOW ARE WE DOING?

April 2016 - March 2017:

WELFARE BENEFITS SERVICE 2,949 people contacted our Welfare Benefits Service receiving over £8.4m in additional benefits	2,754
WELFARE BENEFITS SERVIC 2,949 people contacted our Welfare Benefits Service receiving ove £8.4m in additional benefits	SB last year
FENCES	2,916
3,053 group 1-5 crimes and offences were recorded	SB last year
	904
877 reported incidents of domestic abuse	SB 15/16
PORT Self-Directed	20.6%
SELF-DIRECTED SUPPORT APPROACH 59% of adults are using the Self-Directed Support approach (2016/17)	SB last year

The funding has enabled the development of two new resources - a "Court Advocate" and 'Community Engagement Officer", identified

as gaps in the current response and will provide vital support for both victims and

communities.

Government (pending) and partner agencies

such as SBC, Police Scotland, NHS Borders been secured from the Big Lottery, Scottish

Borders Housing Alliance and Children 1st.

to provide specialist domestic abuse suppor

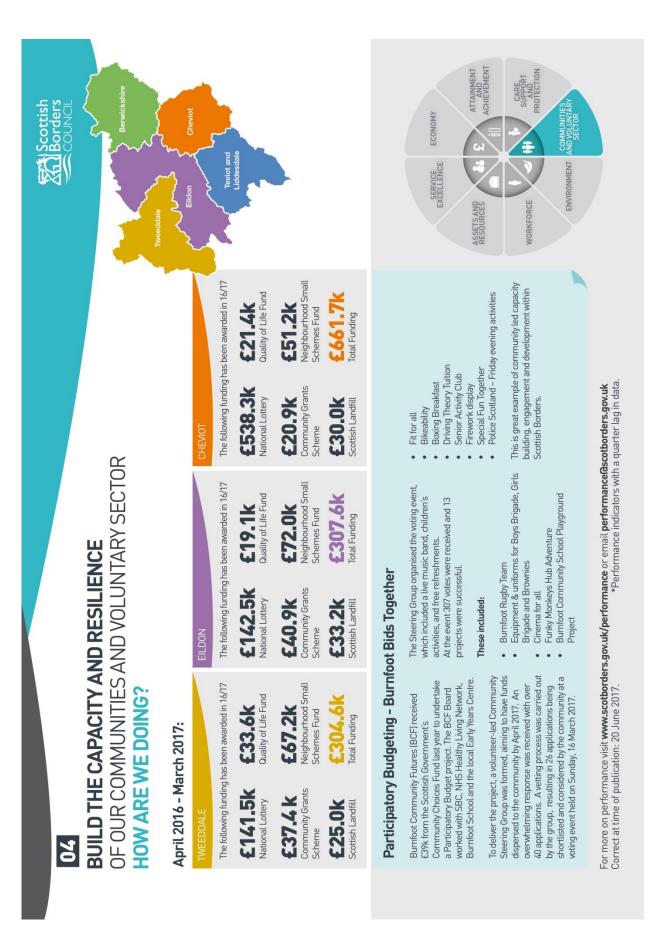
to victims and their families. Funding has

The Pathway 2 Project (2017-20) continues

Supporting Victims of Domestic Abuse

joined-up care • health •		SERVICE ECONOMY EXCELLENCE ATTAINMENT ASSETS AND RESOURCES ACHIEVEMENT		WORKFORCE COMMUNITIES ENVIRONMENT AND GOLUNTARY SECTOR	
independence		53 inter-agency discussions (Initial Referrals Discussions) concerning the safety of a child held, on average, a month (Apr'16-Mar'17)	(up from 40 from Apr' 15 - Mar' 16)	children on the Child Protection Register (2016/17)	(up from 28 in 2015/16)
 health support 		87% of looked after children (across all ages) were tiving within a community family-based placement (at end 2016/17)	(up from 85% at end 2015/16)	76% of looked after children aged 12yrs+ were Living within a community family-based placement (at end 2016/17)	(up from 72% at end 2015/16)
e • joined-up care	a3 2016/17 🔿	251 looked after and accommodated children [at end 2016/17]	(up from 215 at end 2015/16)	children looked after on 31 July 2016 as a percentage of the 0-17yr old population 1.0% 1.5% 1.1% Scottish Scotland Family Borders	(up from 0.9% at end of July 2015)
support • independence	Our performance during Q3 2016/17 💍	76% of adults (aged 65yrs+) received of adults (aged 65yrs+) received care at home compared to a care home /residential setting [2016/17]	(above our target of 70%)	100% of new service users received a service within 6 weeks of assessment [2016/17]	(up from 95% in 2015/16)
•					

For more on performance visit www.scotborders.gov.uk/performance or email performanceldscotborders.gov.uk Correct at time of publication: 20th June 2017.





02

MAINTAIN AND IMPROVE

OUR HIGH QUALITY ENVIRONMENT HOW ARE WE DOING?

January 2016 - December 2016:

HOUSER Of our ho 'other' t	SB last y
60_71% of our household waste was sent to Landfill, on average, over the last 12 months	ar 62.23%
60.71% of our household was to landfill, on average last 12 months	SB last year
	36.89%
39_03% of our household waste, on average, was recycled over the last 12 months	SB last year
KOAD SAFETY 65 people were seriously injured on our roads in 2016	SB last year 62
(9
ROAD SAFETY 12 people were killed on our roads in 2016	SB last year

0.27%

household waste required treatment, on average, e last 12 months

HOLD WASTE



For more on performance visit www.scotborders.gov.uk/performance or email performancedscotborders.gov.uk Correct at time of publication: 20th June 2017.







Equalities Mainstreaming

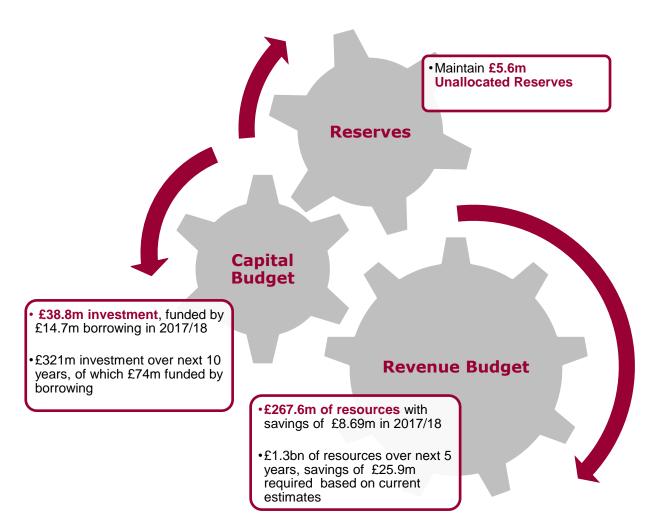
Scottish Borders Council takes a positive approach to equalities and human rights through taking forward the actions in its Mainstreaming Report and Equality Outcomes 2017 – 2021. This is being implemented by:

- 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.

Our Plans for the Future

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

Future Financial Plans - 2017/18



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

Corporate Transformation Programme

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



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

Conclusion

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

Shona Haslam Leader Scottish Borders Council 28 September 2017 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 Audit and Scrutiny Committee at its meeting on 25th September 2017.

The Chief Financial Officer's responsibilities

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

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

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

The Chief Financial Officer has also:

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

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

Shona Haslam Leader **Scottish Borders Council** 28 September 2017

David Robertson CPFA Chief Financial Officer

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the new CIPFA/SOLACE Framework (2016) for the year ended 31 March 2017, sets out the Council's governance arrangements and system of internal control and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

The system can only provide reasonable and not absolute assurance of effectiveness.

New Framework for Good Governance

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

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

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

Revisions were required to the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities. This was approved by Council on 24 August 2017 on recommendation by Audit and Scrutiny Committee in June 2017 and a copy of the Local Code of Corporate Governance will be published on the Council's website.

The Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community

as stated in the Council's Vision, Values and Standards within Corporate Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Chief Officer Audit & Risk (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on work carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards. The audit opinion within the Internal Audit Annual Report 2016/17 states that the systems of internal control and governance are operating satisfactorily, reasonable assurance can be provided on their adequacy and further improvements have been agreed by Management.

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

Review of Framework

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

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

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

The conclusion from the review activity outlined above is that in 2016/17 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective, and are consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016).

Improvement Areas of Governance

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

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

(g) Development and implementation of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future, comply with community empowerment principles, and meet locality needs and priorities, and for enhancing on-going delivery of capital programmes and projects linked to the corporate priorities.

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

Certification

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

Shona Haslam Leader Scottish Borders Council 28 September 2017 Tracey Logan Chief Executive

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

Remuneration Policy

Remuneration of Senior Councillors

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

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

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

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

Remuneration of Senior Employees

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

A senior employee is any employee who:

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

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

Key:

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

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

Remuneration of Senior Councillors

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

Total Remuneration 2015/16	Councillor Name	Responsibility	Salaries, fees and allo wances £	Taxable Expenses £	Total Remuneration 2016/17
£ 33.454	D Parker	Leader of the Council	33,789		£ 33,789
, -		Convener	25,341		25,341
58,544		Leader and Convenor Remuneration	59,130		59,130
25,090	J M itchell	Depute Leader of the Council	25,341	-	25,341
22,666	M Cook	Executive Member for HR and Corporate Improvement	22,893		22,893
22,666	V Davidson	Executive Member for Culture, Sport, Youth & Communities	22,893	-	22,893
22,666	F Renton	Executive Member for Social Work & Housing	22,893	-	22,893
22,666	D M offat	Executive Member for Community Safety	22,893	-	22,893
22,666	J Brown	Executive Member for Community Planning/Vice Convener	22,893	-	22,893
22,666	A Aitchison	Executive Member for Education	22,893	-	22,893
22,666	SBell	Executive Member for Economic Development	22,893	-	22,893
22,701	G Edgar	Executive Member for Roads and Infrastructure	22,893	-	22,893
22,666	D Paterson	Executive Member for Environmental Services	22,893	-	22,893
22,666	R Smith	Executive Member for Planning and Environment	22,893	-	22,893
20,347	WArchibald	Convener of the Licensing Board	20,550	-	20,550
20,347	M Ballantyne	Leader of Opposition	20,550		20,550
292,479		Total Other Senior Councillor Remuneration	295,371		295,371
351,023		Total Senior Councillor Remuneration	354,501	-	354,501

- (1) The total remuneration figures relate to the salary, fees and allowance for 2016-17 are as included in the Comprehensive Income and Expenditure Statement. They are only in respect of monies paid to Councillors whilst actually holding a Senior Councillor position during that year.
- (2) Councillor Bhatia held the position of Depute Leader (Health Services) which is not a remunerated

Total Remuneration paid to Councillors

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

2015/16 £'000		2016/17 £'000
000	Outoring	075
669	Salaries	675
109	Expenses	98
778	Total	773

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

Remuneration of Senior Employees

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

2015/16			2016/17						
Total Remuneration	Name	Post Title	Salaries, fees and allowances	Taxable Expenses	Compensation for loss of employment	Benefits other than in cash	Total Remuneration		
£	Senior Employe	ees in post as at 01/04/16	£	£	£	£	£		
127,437	TM Logan	Chief Executive (1)	133,017			12.893	145,910		
20,960		Depute Chief Executive (2)	21,170				21,170		
· ·	J M cDiarmid	Depute Chief Executive	105,818				105,818		
	JR Dickson	Corporate Transformation & Service Director (3)	109,704		-	-	109,704		
85,237	KD Robertson	Chief Financial Officer (4)	86,479	86	-	-	86,565		
80,187	J Craig	Service Director Neighbourhood Services	82,511		-	-	82,511		
66,168	C Hepburn	Chief Human Resources Officer	71,723			-	71,723		
80,056	EH Torrance	Chief Social Work Officer (5)	53,884	7	-	-	53,891		
			(FYE 80,697)						
80,203	GB Frater	Service Director Regulatory Services (6)	82,911	48	-	-	82,959		
86,207	D Manson	Service Director Children & Young People	87,024			-	87,024		
-	D Girdler	Chief Officer Roads	40,643	-			40,643		
		(appointed 12 September 2016)	(FYE 73,525)						
677	M Joyce	Service Director Assets & Infrastructure	84,000	69	-	-	84,069		
(FYE 84,000)		(appointed 29 M arch 2016)							
	Senior Employe	ees departed post before 01/04/17							
17,416	B Park	Chief Officer Roads	30,635	-	-	-	30,635		
(FYE 72,797)		(appointed 5 January 2016, left 31 August 2016)	(FYE 73,525)						
858,830		Total	989,519	210	-	12,893	1,002,622		

Notes

- (1) TM Logan figure of £133,017 includes £928 for 25% balance of Returning Officer fee for the General Election on 7 May 2015; £6231.75 for 75% of Returning Officer fee for the Scottish Parliament Election on 5 May 2016 and £2,014 for 50% of Counting Officer fee for the European Union Referendum on 23 June 2016.
- (2) P Barr seconded to SB Cares (subsidiary) as Managing Director. The above figure represents 20% of time employed by SBC, with the remaining 80% (£84,678) met by SB Cares.
- (3) JR Dickson figure of £109,704 includes £3,061.64 for Depute Returning Officer fee for the Scottish Parliament Election on 5 May 2016, £1,000 for 25% of Counting Officer Fee and £1,581.01 for Depute Counting Officer fee for the European Union Referendum on 23 June 2016.
- (4) KD Robertson figure of £86,479 includes £200 Count Supervision fee for the Scottish Parliament Election on 5 May 2016 and £200 Count Supervision fee for the European Union Referendum on 23 June 2016.
- (5) E Torrance seconded to Health & Social Care Partnership from 1 December 2016.
- (6) GB Frater figure of £82,911 includes £200 Count Supervision fee for the Scottish Parliament Election on 5 May 2016 and £200 Count Supervision fee for the European Union Referendum on 23 June 2016.

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

Exit Packages

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

2016/17

Exit Package Cost band (including special payments) 2016/17	Number of Compulsory Redundancies	Number of Other Agreed Departures	Total Number of Exit Packages by Cost Band	Total cost of Exit Packages in each band £
£0 - £20,000	7	7	14	110,827
£20,001- £40,000	1	4	5	127,551
£40,001-£60,000	2	3	5	239,184
£60,001-£80,000	-		-	-
£80,001 - £100,000	-	-	-	-
£100,001 - £150,000	-		-	-
£150,001 - £200,000	-	-	-	-
Total	10	14	24	477,562

The total costs of £0.478m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year.

2015/16

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

Council Subsidiary Bodies

As per the Accounts Regulations 2014 "A Remuneration Report is to give for any local authority subsidiary body, the name of that body, together with:-

- (a) The full post title and name of the chief executive of that body (or, if there is no chief executive, the post held and the name of the most senior manager in that body
- (b) The full post title and name of each director or employee of the body whose annual remuneration in that year, including any annual remuneration from a local authority, was £150,000 or more

The details for the Councils subsidiary bodies are as follows:-

Bridge Homes LLP – Designated Member, David Robertson SB Cares and SB Supports LLP – Managing Director, Philip Barr Live Borders – Chief Executive Officer, Ewan Jackson

No director or employee had an annual remuneration of £150,000 or more

Pension Benefits

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

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

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

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

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

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

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

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

Pension Benefits of Senior Councillors

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

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

		In-year contrib		Accrued pension benefits		
Councillor Name	Responsibility	For year to 31 March 2016	For year to 31 March 2017	Туре	As at 31 M arch 2017	Difference from 31 March 2016
		£	£		£	£
D Parker	Leader of the Council	6,022	6,082	Pension Lump Sum	5,897 p. a 2,611	
G Garvie	Convener	4,516	4,304	Pension Lump Sum	2,209 p.a	84 p.a
J M itchell	Depute Leader of the Council	4,516	4,561	Pension Lump Sum	3,830 p.a 1,615	
M J Cook	Executive Member for HR and Corporate Improvement	4,080	4,121	Pension Lump Sum	4,157 p.a 1,863	
V Davidson	Executive Member for Culture, Sport, Youth & Communities	4,080	4,121	Pension Lump Sum		551p.a
D P Moffat	Executive Member for Community Safety	4,080	4,121	Pension Lump Sum	3,714 p.a 1,606	
J Brown	Executive Member for Community Planning/Vice Convener	4,080	4,121	Pension Lump Sum	4,682 p.a 4,844	291p.a
A Aitchison	Executive Member for Education	4,080	4,121	Pension Lump Sum	3,575 p.a 1,526	
SBell	Executive Member for Economic Development	4,080	4,125	Pension Lump Sum	2,072 p.a -	127 p.a -
G Edgar	Executive Member for Roads and Infrastructue	4,080	4,121	Pension Lump Sum	2,071p.a	126 p.a -
D Paterson	Executive Member for Environmental Services	4,080	4,121	Pension Lump Sum	8,319 p.a 15,756	
R Smith	Executive Member for Planning and Environment	4,080	4,121	Pension Lump Sum	3,761p.a 1,633	
Total		51,774	52,040			

Notes

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

Pension Benefits of Senior Employees

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

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

Notes

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

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

Shona Haslam Leader 28 September 2017 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. Further detail on the movement in reserves can be found at Note 31 on page 88.

Movement in reserves during 2015/16

Balance at 01/04/2015

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	
(18,991)	(7,552)	(39)	(1,314)	(27,896)	9,579	(18,317)	

Movement in reserves during 2015/16

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & Funding basis under regulations

Increase or Decrease In 2015/16

Balance at 31/03/2016 carried forward

(4,786)	-	-	-	(4,786)	(43,758)	(48,544)	CI&E
C4F	074	(02)	(7)	4 5 40	(4 5 40)		24
615	974	(63)	(7)	1,518	(1,518)	-	31
(4,171)	974	(63)	(7)	(3,268)	(45,276)	(48,544)	
(4, 17 1)	314	(03)	(1)	(3,200)	(43,270)	(40,344)	
(23,163)	(6,578)	(102)	(1,321)	(31,164)	(35,697)	(66,861)	
(23,103)	(0,370)	(102)	(1,321)	(31,104)	(33,697)	(00,001)	

Movement in reserves during 2016/17

Balance at 01/04/2016

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	
(23,163)	(6,578)	(102)	(1,321)	(31,164)	(35,697)	(66,861)	

Movement in reserves during 2016/17

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & Funding basis under regulations

Increase or Decrease In 2016/17

Balance at 31/03/2017 carried forward

Ī	5,343	-	-	-	5,343	63,754	69,097	CI&E
ı	(475)	57	102	196	(119)	119	-	31
I								
ı								
	4,868	57	102	196	5,224	63,873	69,097	
ſ								
ı	(18,294)	(6,521)	0	(1,125)	(25,940)	28,176	2,236	

Comprehensive Income and Expenditure Statement

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

20 Gross	15/16 Restate Gross	ed Net		Gross	2016/17 Gross	Net	
Expenditure	Income	Expenditure		Expenditure	Income	Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
20.507	(5.057)	22.050	Chief Fueroutine	40.004	(5.005)	42.000	
38,507	(5,657)	32,850	Chief Executive	48,991	(5,905)	43,086	
188,884 70,822	(17,449) (15,363)	171,435 55,459	People Place	230,807 65,393	(63,999) (17,919)	166,808 47,474	
34,991	(31,219)	3,772	Other	35,165	(32,913)	2,252	
1,413	(3 1,2 19)	1,413	Non-Distributed Costs	4,143	(32,3 6)	4,143	
1,4 10		1,4 10	Non Distributed 003t3	4,40		4,40	
334,618	(69,688)	264,929	Net Cost of Services	384,499	(120,736)	263,763	
6,600	(6,698)	(98)	Roads Trading Operation (Surplus)/Deficit (External)	10,939	(11,030)	(91)	8
			Other Operating Expenditure				
1,915	(1,263)	652	(Gain)/Loss on Disposal of Assets	1,598	(1,581)	17	
1,0 10	(1,200)	002	(Gailly/2000 off Bioperoal of Modele	1,000	(1,001)	"	
			Financing & Investment Income and Expenditure				
12,320	-	12,320	Interest Payable & Similar Charges	11,879	-	11,879	29
-	(60)	(60)	Interest Receivable & Similar Income	-	(55)	(55)	-
21,224	(15,644)	5,580	Net Interest Expense on the Net Defined Benefit Liability	22,468	(17,293)	5,175	20
2 1,224	(6,044)	3,300		22,400	(11,233)	3, 11 3	
			Taxation and Non-Specific Grant Income				
-	(178,870)	(178,870)	Revenue Support Grant	_	(170,200)	(170,200)	
-	(33,707)	(33,707)	Non-Domestic Rates Pool for Scotland	-	(33,594)	(33,594)	
11,086	(57,679)	(46,593)	Council Tax	10,162	(58,004)	(47,842)	
-	(28,939)	(28,939)	Capital Grants and Contributions	-	(23,709)	(23,709)	28
387,763	(392,548)	(4,786)	(Surplus)/Deficit on Provision of Services	441,546	(436,203)	5,343	
		(8,032)	(Surplus)/Deficit on revaluation of Non Current Assets			(5,032)	
		, , ,				,	
		-	Any Other (Gains) Or Losses			(723)	
		(35,726)	Actuarial (gains)/losses on pension assets/liabilities			69,509	
		(43,758)	Other Comprehensive Income and Expenditure			63,754	
		(48,544)	Total Comprehensive Income and Expenditure			69,097	

Balance Sheet

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

2015/16		2016/17	
£'000		£'000	Notes
	Property Plant and Equipment		
302,841	Other Land and Buildings	304,560	12
15,019	Vehicle, Plant, Furniture & Equipment	17,500	
89,035	Infrastructure	123,534	}
4,116	Surplus Assets	3,838	
33,108	Assets Under Construction	27,259	J
1,014	Heritage Assets	1,036	13
230	Intangible Assets	52	14
6,412	Long Term Debtors	8,467	29
451,775	Long Term Assets	486,246	
676	Intangible Assets - Current	411	14
-	Short Term Investments		
1,020	Inventories	906	24
47,927	Short Term Debtors	46,620	30
(9,525)	less Bad Debt Provision	(10,150)	
16,476	Cash and Cash Equivalents	7,904	34
56,574	Current Assets	45,691	
(3,261)	Short Term Borrowing	(12,300)	29
(51,364)	Short Term Creditors	(53,155)	30
(1,491)	Provisions	(804)	25
(56,116)	Current Liabilities	(66,259)	
(171,996)	Long Term Borrowing	(184,215)	29
(52,864)	Deferred Liabilities	(51,252)	
(747)	Due to Trust Funds and Common Good	(598)	
(4,305)	Provisions	(3,972)	25
(13,868)	Capital Grants Receipts in Advance	(11,852)	
(243,780)	Long Term Liabilities	(251,889)	
208,453	Net Assets excluding pension liability	213,789	
(141,592)	Pension Liability	(216,025)	20
66,861	Net Assets/(Liabilities) including pension liability	(2,236)	

Balance Sheet

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017

Cash Flow Statement

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

2015/16		2016/17		
£'000		£'000	£'000	Notes
(4,786)	Net (Surplus) or deficit on the provision of services	5,343		
(37,503)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(23,364)		32
28,203	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	23,890		32
(14,086)	Net Cash Flows From Operating Activities		5,869	
	Investing Activities			
46,267	Purchase of PP&E, investment property and intangible assets	45,177		
(1,263)	Proceeds from PP&E, investment property and intangible assets	(1,581)		
(52)	Purchase/(Disposal) of short & long term investments	-		
(34,607)	Other Items which are Investing Activities	(21,087)		
10,345	Net Cash Flows from Investing Activities		22,509	
	Financing Activities			
-	Cash received from loans & other borrowing	(21,300)		
1,462	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,613		
63	Repayments of short and long term borrowing	63		
737	Other items which are financing activities	(182)		
2,262	Net Cash Flows from Financing Activities		(19,806)	
(1,479)	Net (Increase) or Decrease in Cash and Cash Equivalents		8,572	
14,997	Cash and Cash Equivalents at the beginning of the reporting period		16,476	
16,476	Cash and Cash Equivalents at the end of the reporting period		7,904	34
(1,479)	Movement		8,572	

General Principles

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

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

Accruals of Income and Expenditure

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

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

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

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

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

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

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

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances 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. In order to meet this obligation the Council has purchased allowances prospectively. 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.

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

Government Grants

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

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

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

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

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.

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.

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.

Measurement: assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

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

Accounting Policies

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

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

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

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Note 1 First Time Adoption of Accounting Standards

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

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

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

IAS 26 Amendment to the reporting of pension scheme transaction costs

IAS 26 Amendment to the reporting of investment concentration

Note 3 Critical Judgements in Applying Accounting Policies

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

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

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

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

- Assumptions used in the calculation of depreciation
- Assumptions about future events affecting provisions
- Principal actuarial assumptions used at the Balance Sheet date in respect of defined benefit pension
- Assessments of the recoverable amounts of arrears and other debtors
- Fair values for property, plant and equipment that are not based on recently observed market prices
- Fair values for financial assets and financial liabilities that are not based on recently observed market prices

Note 5 Expenditure and Funding Analysis

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

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

Note to the Expenditure and Funding Analysis

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

Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £`000	Net change for the Pensions Adjustments (Note 2) £`000	Other Differences (Note 3) £`000	Total Adjustments £`000
Chief Executive	3,911	830	201	4,942
People	3,138	1,268	1,593	5,999
Place	9,940	1,483	798	12,221
Other	(18,030)	45	(7,108)	(25,093)
Non Distributed Costs	7,957	(3,877)	63	4,143
Net Cost Services	6,916	(251)	(4,453)	2,212
Other income and expenditure from the Expenditure and Funding Analysis	(11,605)	5,175	4,693	(1,737)
Difference between General Fund (Surplus) or Deficit and Comprehensive Income and Expenditure Statement (Surplus) or	44.000			
Deficit on the Provision of Services	(4,689)	4,924	240	475

Adjustments between Funding and Accounting Basis 2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £`000	Net change for the Pensions Adjustments (Note 2) £`000	Other Differences (Note 3) £`000	Total Adjustments £`000
Chief Executive	4,517	1,030	(286)	5,261
People	2,386	1,781	1,066	5,233
Place	16,239	1,847	386	18,472
Other	(18,250)	24	(7,449)	(25,675)
Non Distributed Costs	613	985	(185)	1,413
Net Cost Services	5,505	5,667	(6,468)	4,704
Other income and expenditure from the Expenditure and Funding Analysis	(15,761)	5,580	4,863	(5,318)
Difference between General Fund (Surplus) or Deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services	(10.256)	11,247	(1,605)	(614)

(Note 1) Adjustments for Capital Purposes

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

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

(Note 2) Changes for Pension Adjustments

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

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

(Note 3) Other Differences

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

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

Income received on a segmental basis is analysed below:

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

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

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

Note 6 Acquired and Discontinued Operations

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

Note 7 Prior Year Adjustments

During the external audit for 2015/16 it was discovered that the revaluation treatment of three fixed assets had been incorrectly applied. As this was not considered to have crossed the materiality threshold it was agreed that the relevant accounting adjustments could be made in 2016/17.

This has resulted in a net gain of £724k to Property Plant & Equipment (shown within note 12) and corresponding adjustments of £482k to the Capital Adjustment Account and £242k to the Revaluation Reserve.

Note 8 Significant Trading Operation

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

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

SBc Contracts undertakes a wide range of activities including:

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

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

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

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

In 2016/17 turnover increased by £4m, or 28% to £18.3m. This higher turnover helped to support the higher than budgeted operating surplus achieved. Of the total turnover, £11.0m, 60% was generated by external work. The order book remains strong with major works programmed to start or continue on the new Kelso High School, Langlee Primary School, Broomlands Primary School, Old Tweed Bridge and at the Buccleuch & Firhill sites in Edinburgh.

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

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

Note 9 Agency Work

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

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 total amount of transactions between the Council and companies in which members have an interest in 2016/17 was £0.2m. The Remuneration Report shows the total allowances paid to senior members in 2016/17. The Members' Register of Interests can be inspected and is available on the Council's web site at www.scotborders.gov.uk

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

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

	2015/16	2016/17
Due to/(from) the Scottish Borders Council Pension Fund	£(1.486)m	£0.104m

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

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

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

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

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

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

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

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

Borders Ability Equipment Store

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

Galashiels Resource Centre

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

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

SB Supports is a registered Limited Liability Partnership between Scottish Borders Council and SBC Nominees. This was established on 1st April 2015 to work in partnership on the provision of adult social care services. In 2016/17 the Council made a payment of £17.538m to SB Supports.

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. In 2016/17 the Council made a payment of £42.237m to the Board, with corresponding income of the same value shown within the Comprehensive Income & Expenditure Statement. At 31st March 2017 a debtor and creditor figure of £6.018m between the Board and Scottish Borders Council was outstanding. The Chief Financial Officer to the Board was supplied by Scottish Borders Council during 2016/17 at a nil cost to the partnership. Additionally the PA to the Chief Officer was also supplied by Scottish Borders Council again at nil cost. Both these officers provided full time support to the Board.

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

Note 11 Audit Remuneration

In 2016/17 the agreed audit fee for the year was £0.263m in respect of services provided by Audit Scotland (KPMG in 2015/16 £0.264m and £0.007m Common Good and Trust). A further £7,000 fee was agreed in respect of services provided by Audit Scotland in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts.

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2016/17

		Proj					
	Other Land & Buildings	VPFE *	Infrastructure	Assets under Construction	Surplus Assets	Heritage Assets	Total Assets
	£'000	£'000	£'000	£'000	£'000		£'000
Gross book value (GBV) at 31 M arch 2016	335,959	58,923	17 1, 15 0	33,108	4,240	1,014	604,394
Prior Period adjustment	73	•	-	557	•	22	652
Revised Gross book value (GBV) at 31 March 2016	336,032	58,923	17 1,15 0	33,665	4,240	1036	605,046
Acquisitions & Recognition in the year	6,026	9,440	15,219	21,196	-		51,881
Transfers between categories	1,834	(2,314)	27,154	(27,462)	690	-	(98)
Revaluations	2,244	-	-	-	342	-	2,586
Impairments	(2,408)	(337)	(141)	(140)	(139)	-	(3,165)
Disposals	(567)	(11,920)	(166)	-	(1,107)	-	(13,760)
Gross book value (GBV) at 31 M arch 2017	343,161	53,792	213,216	27,259	4,026	1,036	642,490
Cumulative depreciation at 31 March 2016	(33,118)	(43,904)	(82,115)	·	(124)	-	(159,261)
Prior Period adjustment	72	-	-	-	-	-	72
Revised Cumulative depreciation at 31 M arch 2016	(33,046)	(43,904)	(82,115)	-	(124)	-	(159,189)
Depreciation for the year	(9,584)	(4,857)	(7,232)	-	(110)	-	(21,783)
Transfers between categories	59	598	(501)	-	(58)	-	98
Revaluations	3,882	-		-	87	-	3,969
Impairments	(19)	-	-	-	-	-	(19)
Disposals	107	11,871	166	-	17	-	12,161
Cumulative depreciation at 31 March 2017	(38,601)	(36,292)	(89,682)	•	(188)	-	(164,763)
Net book value at 31 March 2017	304,560	17,500	123,534	27,259	3,838	1,036	477,727
Net book value at 31 March 2016	302,841	15,019	89,035	33,108	4,116	1,014	445,133
Prior Period adjustment	145	0	0	557	0	22	724
Revised Net book value at 31 March 2016	302,986	15,019	89,035	33,665	4,116	1,036	445,857

^{*} VPFE - Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2016/17. The £98k Transfer between categories relates to a movement between Property, Plant & Equipment and Intangible Assets.

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

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

Negative revaluations are shown within the stated figures for impairment. In 2016/17 this amounted to a NBV of £1.983m (£8.016m in 15/16).

For net impairments £1.199m was charged to the CIES (15/16 £1.126m) and £0.002m charged to the Revaluation Reserve (£0 in 15/16)

Comparative Movements in 2015/16

		Pro	perty Plant & Equ	ipment			
	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 M arch 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 M arch 2015	290,444	14,621	86,483	26,976	4,730	1,014	424,268

Capital Commitments

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

	Capital Commitments as at 31 M arch 2017 £'000	
Place	1,760	
People	9,511	
Chief Executive	108	
Total	11,379	

Valuation and Depreciation

Land and Buildings

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

Vehicles, Plant, Furniture and Equipment

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

Infrastructure

• Infrastructure was valued at depreciated historic cost.

Depreciation

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

Depreciation has been directly charged to services.

Revaluations

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

Revaluation Cycle

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

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

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

	Property Plant & Equipment						
	Other Land & Buildings	VPFE	Infrastructure	Assets under Construction	Surplus Assets	Heritage Assets	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at Historical Cost	86,834	53,519	213,118	27,259	(2,545)	1,036	379,221
New Certified Valuation							
1st April 2016	6,126	-	-	-	429	-	6,555
1st April 2015	7,742	273	89	-	234	-	8,338
1st April 2014	-	-	-	-	339	-	339
1st April 2013	9,618	-	9	-	340	-	9,967
Prior to & Including 1st April 2012	232,841		-	-	5,229		238,070
Gross book value (GBV) at 31 March 2017	343,161	53,792	213,216	27,259	4,026	1,036	642,490

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 31M arch 2015	161	771	82	1,014	1,014
Additions	-	-	-	-	-
Cost or Valuation at 31M arch 2016	161	771	82	1,014	1,014
Prior Year Adjustment	-	-	22	22	22
Additions				-	-
Cost or Valuation at 31M arch 2017	161	771	104	1,036	1,036

There were no revaluations of heritage assets during the year.

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

Museum Collection

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

Fine Arts Collection

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

Archive Centre Collection

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

Monuments, Memorials and Statues Collection

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

Note 14 Intangible Assets

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

2015/16 £'000		2016/17 £'000
3,550	Gross book value (GBV) at 31 M arch	1,825
199	Expenditure in the year Transfers	10 98
(46)	Impairments	-
(1,878)	Disposals	(203)
1,825	Gross book value (GBV) at 31 M arch	1,730
(3,255)	Cumulative amortisation at 31 M arch	(1,595)
(218)	Amortisation for the year Transfers	(188) (98)
1,878	Disposals	203
(1,595)	Cumulative amortisation at 31 M arch	(1,678)
230	Net book value at 31 M arch	52

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

Carbon Reduction Commitment allowances purchased for future years responsibilities are shown as current intangible assets with a value for 2016/17 of £0.411m. When the allowances are surrendered to the CRC Registry, the current intangible asset is reduced accordingly.

Note 15 Assets Held for Sale

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

Note 16 Private Finance Initiatives and Similar Contracts

During 2006/07 the Council entered into a Public Private Partnership (PPP) for the provision of new secondary schools in Earlston, Duns and Eyemouth. These assets are recognised on the Council's Balance Sheet. The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2017 are as follows:

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

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

Note 17 Leases

Council as Lessee

Finance Leases

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

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

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The balances shown under Land and Buildings in the table above (with the exception of £0.016m in relation to industrial units), relate to the Council's PPP arrangement for the provision of three secondary schools, as detailed in Note 16. The minimum lease payments are made up of the following amounts:

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

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

Operating Leases

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

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

Council as Lessor

Finance Leases

The Council has no finance leases as lessor.

Operating Leases

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

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

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

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

Note 18 Capital Expenditure and Capital Financing

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

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

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

Note 19 Termination Benefits

During 2016/17 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 24 employees, incurring liabilities of £0.478m - 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.

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

Pension Assets and Liabilities Recognised in the Balance Sheet

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

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

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

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

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

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

Settlement prices paid represent the value of liabilities for those members who have transferred to other Fund employers during the year.

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

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

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

Local Government Pension Scheme assets comprised:-

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

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

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

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

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 increase in salary levels have been estimated at 1% in line with the Public Sector pay cap. It should be noted that the discount rate used to calculate the pension liabilities for 2016/17 has reduced by 1% from the discount rate which was used to calculate the 2015/16 liabilities. This has had a major impact on the valuation of the fund liabilities as demonstrated by the increase in the pension liability shown on the balance sheet (page 42). 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

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

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

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

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

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

Note 21 Teachers' Pension Scheme

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

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

Note 22 Scottish Borders Council Pension Fund

Scottish Borders Council manages and administers this Fund which provides pensions and other benefits to its employees and a further 17 employers in the Scottish Borders. As at 31 March 2017 there were 10,432 members.

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

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

Note 23 Events After the Balance Sheet Date

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

Note 24 Inventories

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

Note 25 Provisions

Provisions are recognised in the accounts when:

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

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

Contractual Claims £'000	Equal Pay £'000	Severance / Early Retirement £'000	Police Potential Clawback £'000	Asset Decommissioning £'000	Total £'000
(174)	(242)	(277)	(108)	(4,022)	(4,823)
(52)		(339)		(138)	(529)
106	4	209	108	149	576
(120)	(238)	(407)	-	(4,011)	(4,776)
	Claims £'000 (174) (52) 106	Claims Equal Pay £'000 £'000 (174) (242) (52) 106 4	Contractual Claims Equal Pay £'000 Early Retirement £'000 (174) (242) (277) (52) (339) 106 4 209	Contractual Claims Equal Pay Early Retirement Potential Clawback £'000 £'000 £'000 £'000 (174) (242) (277) (108) (52) (339) (309) (309) 106 4 209 108	Contractual Claims Equal Pay Early Retirement Potential Clawback Asset Decommissioning £'000 £'000 £'000 £'000 £'000 (174) (242) (277) (108) (4,022) (52) (339) (138) 106 4 209 108 149

				(3,972)	(3,972)
(120)	(238)	(407)	-	(39)	(804)
	(120)	(120) (238)	(120) (238) (407)	(120) (238) (407) -	(120) (238) (407) - (39)

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

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

- There has been a European Court of Justice ruling relating to workers annual leave payment entitlement. The financial implications of this judgement for Scottish Borders Council are unclear at present and therefore the Council, in agreement with our external auditors, have included this as a contingent liability in this years` annual accounts.
- The Council has a commitment to provide Bridge Homes LLP with a loan facility up to a maximum value of £18.8m in order to allow Bridge Homes LLP to deliver affordable housing in the Scottish Borders in line with the Council's Local Housing Strategy.
- The Council has agreed to act as guarantor for SB Cares and Live Borders with regards to their admission to the Scottish Borders Pension Fund. Should either SB Cares or Live Borders be unable to meet their pension obligations, Scottish Borders Council as guarantor would be liable to do so. Our Actuary, Barnett Waddingham, has provided figures based on the projected bond level that would be need to be established to reflect these pension fund liabilities. For those employees that transferred over to SB Cares the pension liability has been calculated at £6.167m and for Live Borders £2.937m.

Note 27 Contingent Assets

The following Contingent Assets are noted:

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

Note 28 Grant Income

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

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

Note 29 Financial Instruments

A financial instrument is any contract which gives rise to a financial asset within one entity and a financial liability within another entity. 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 M arch 2017				
	Quoted Prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total		
_	£'000	£'000	£'000	£'000		
Financial Liabilities						
Financial Liabilities held at amortised cost:						
PWLB debt	-	(273,197)	-	(273,197)		
Market Debt	-	(341)	-	(341)		
Other debt	-	(90,038)	-	(90,038)		
Total	-	(363,576)	-	(363,576)		

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

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

The fair value for financial liabilities and financial assets that are not measured at fair value are shown at their carrying value since this is a reasonable approximation of their fair value. These are short term assets and liabilities such as accounts payables and receivables.

Financial Instruments - Balances

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

	Long-	Term	Curr	ent
	31 M arch 2016	31 M arch 2017	31 M arch 2016	31 M arch 2017
	£'000	£'000	£'000	£'000
Loans and Receivables				
Short Term Investments	-	-	-	-
Cash and Cash Equivalents	-	-	16,476	7,904
Debtors	6,412	8,467	38,402	36,470
Total Loans and Receivables	6,412	8,467	54,878	44,374
Borrowings				
Financial Liabilities (principal amount)	(171,996)	(184,215)	-	-
Accrued interest	-		(3,261)	(12,300)
Total Borrowings	(171,996)	(184,215)	(3,261)	(12,300)
Other Liabilities				
PPP and finance lease liabilities	(52,864)	(51,252)	(1,816)	(1,692)
Bonds	-	-	(1,420)	(1,460)
Total other long-term liabilities	(52,864)	(51,252)	(3,236)	(3,152)
Creditors Short term creditors at amortised cost				
(excluding Other Liabilities)	-	-	(48,128)	(50,003)
Total Creditors	-		(48,128)	(50,003)

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

Analysis of Borrowing by Maturity.

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

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

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

	2015/16				
	Financial	Financial			
	Liabilities	Assets			
	Liabilities	Loans	Total		
	measured at	and			
	amortised cost	receivables			
	£'000	£'000	£'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		

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 M ar	31 M arch 2016		h 2017
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	(130,371)	(236,795)	(142,405)	(273,197)
Other debt	(44,886)	(71,163)	(54,110)	(90,379)
Total debt	(175,257)	(307,958)	(196,515)	(363,576)
Creditors	(51,364)	(51,364)	(53,155)	(53,155)
Total financial liabilities	(226,621)	(359,322)	(249,670)	(416,731)

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 M arch 2016		31 M arc	ch 2017
	Carrying Fair Carrying Amount Value Amount £'000 £'000 £'000			Fair Value £'000
Loans and Receivables				
Short Term Investments	-	-	-	-
Cash and Cash Equivalents	16,476	16,476	7,904	7,904
Debtors	38,402	38,402	36,470	36,470
Total loans and receivables	54,878	54,878	44,374	44,374

All of the Councils` financial assets were of less than one year duration and therefore the fair value equates to the amortised cost on the balance sheet. The Council does not currently hold any available for sale assets.

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:
 - o the Council's overall borrowing
 - o its maximum and minimum exposures to fixed and variable rates
 - o its maximum and minimum exposures to the maturity structure of its debt
 - o its maximum annual exposures to investments maturing beyond a year
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government regulations.

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

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

The annual Treasury Management Strategy for 2016/17 which incorporates the prudential indicators was approved by the Council on 11 February 2016. The key issues within the strategy were:

- The Authorised Limit for 2016/17 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 £272.4m 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	M inimum	M aximum
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 2016/17 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 2017 that this was likely to crystallise.

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

Liquidity Risk

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

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

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

Refinancing and Maturity Risk

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

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

The Council 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 11 February 2016:

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

Market Risk

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

- (i) Interest Rate Risk The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:
 - Borrowings at variable rates the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
 - Borrowings at fixed rates the fair value of the borrowing will fall (no impact on revenue balances).
 - Investments at variable rates the interest income credited to the Comprehensive Income and Expenditure Statement will rise, and
 - Investments at fixed rates the fair value of the assets will fall (no impact on revenue balances).

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

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

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	(112)
Decrease in fair value of fixed rate borrowing liabilities (No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	64,057

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

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

Debtor and Creditor Analysis

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

Debtors

2015/16 £'000		2016/17 £'000
5,919	Central government bodies	3,621
193	Other local authorities	136
2,376	NHS bodies	3,671
979	Public Corporations and Trading Funds	1,172
38,460	Bodies External to General Government	38,020
47,927		46,620

Debtor and Creditor Analysis

Creditors

2015/16 £'000		2016/17 £'000
(3,903)	Central government bodies	(3,299)
(2)	Other local authorities	-
(106)	NHS Bodies	(2)
(1,764)	Public Corporations and Trading Funds	(1,870)
(45,589)	Bodies External to General Government	(47,984)
(51,364)		(53,155)

Note 31 Movement in Reserves

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

	Balance as at 31 M arch 2016	Transfers between reserves and funds	Gains or Losses for the Year	Balance as at 31 M arch 2017	
	£'000	£'000	£'000	£'000	
Usable Reserves					
General Fund Balances	(23,163)	(474)	5,343	(18,294)	
Capital Fund	(6,578)	57	-	(6,521)	
Property Maintenance Fund	(102)	102	-	(0)	
Insurance Fund	(1,321)	196	-	(1,125)	
Unusable Reserves					
Capital Adjustment Account	(118,459)	(8,163)	(480)	(127,102)	
Financial Instruments Adjustment Account	5,189	(209)	-	4,980	
Revaluation Reserve	(70,201)	3,397	(5,275)	(72,079)	
Pensions Reserve	141,592	4,924	69,509	216,025	
Employee Statutory Adjustment Account	6,182	170	-	6,352	
	(22.220)				
Total	(66,861)	0	69,097	2,23	

Adjustments Between Accounting Basis And Capital Funding Basis Under Regulations

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

A summary of all reserves movements are shown below:

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

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Charges for depreciation & amortisation of non- current assets	(21,247)	-			(21,247)	21,247		12 & 14
Impairment losses (charged to CI&ES)	(1,126)		-	-	(1,126)	1,126	-	
Revaluation Losses	(7,754)	-		-	(7,754)	7,754	-	
Capital grants and contributions applied	28,939	-		-	28,939	(28,939)	-	28
Employee Statutory Adjustments	1,008	-	-	-	1,008	(1,008)	-	
Profit/(Loss) on disposal of assets	(652)	(1,262)	-	-	(1,914)	1,914		
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206			-	206	(206)		
Net retirement charges per IAS 19	(22,496)		-	-	(22,496)	22,496	-	
Loans Fund principal repayments and Statutory premia	10,114	-	-	-	10,114	(10,114)	-	
Capital Expenditure charged to General Fund balance	531	-	-	-	531	(531)	-	
Employers contribution payable to Pension Fund	11,250	-	-	-	11,250	(11,250)	-	
Net Transfers to or (from) other reserves	1,841	2,236	(63)	(7)	4,007	(4,007)	-	
Total in year adjustments	614	974	(63)	(7)	1,518	(1,518)	-	

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

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Charges for depreciation & amortisation of non- current assets	(21,971)	-			(21,971)	21,971		12 & 14
Impairment Losses (charged to CI&ES)	(1,199)				(1,199)	1,199	-	
Revaluation Losses	(463)				(463)	463		
Capital grants and contributions applied	23,709				23,709	(23,709)		28
Employee Statutory Adjustments	(170)	-	-	-	(170)	170	-	
Profit/(Loss) on disposal of assets	(17)	(1,582)			(1,599)	1,599	-	
Revenue Exp Funded From Capital under Statute	(7,748)				(7,748)	7,748	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	207	-	-	-	207	(207)	-	
Net retirement charges per IAS 19	(15,202)	-	-	-	(15,202)	15,202	-	
Loans Fund principal repayments and Statutory premia	10,203	-	-	-	10,203	(10,203)	-	
Capital Expenditure charged to General Fund balance	146		-	-	146	(146)	-	
Employers contribution payable to Pension Fund	10,278	-	-		10,278	(10,278)	-	
Net Transfers to or (from) other reserves	1,753	1,639	102	196	3,690	(3,690)	_	
Total in year adjustments	(474)	57	102	196	(119)	119	-	

Notes to the Core Financial Statements

Usable Reserves

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

The General Fund Balances are further analysed as follows:

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

Unusable Reserves

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

Capital Adjustment Account

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

Financial Instruments Adjustment Account

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

Revaluation Reserve

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

Pension Reserve

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

Employee Statutory Adjustment Account

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

Notes to the Core Financial Statements

Note 32 Cash Flow

2015/16		2016/17
£'000	Reconciliation to General Fund Surplus	£'000
(4,786)	Net (Surplus) or deficit on the provision of services	5,343
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(21,029)	Depreciation	(21,783)
(8,880)	Impairment & Revaluation Loss through I & E	(1,662)
(218)	Amortisation of intangible assets	(188)
(11,246)	Movement in pension liability	(4,924)
(652)	Gain/Loss on carrying amounts of assets disposed	(17)
54	Net movement in inventories charged to I & E	(114)
9,607	Net movement in debtors charged to I & E	(152)
(5,129)	Net movement in creditors charged to I & E	4,827
(10)	Net movement in provisions charged to I & E	648
(37,503)		(23,364)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
28,939	Capital grants received Any other items received for the financing of capital or to meet principal	23,709
(736)	repayments which have been recognised through the I & E	181
28,203		23,890
(14,086)	Net Cash Outflow / (Inflow) from Operating Activities	5,869

Note 33

Impairment Losses

During 2016/17 SBC recognised a net impairment loss (including negative revaluations) of £3.184m (£9.187m in 2015/16). A net impairment cost of £1.662m has been charged to the Comprehensive Income and Expenditure Statement and shown within the Net Cost of Services.

Note 34

Cash and Cash Equivalents

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

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

Supplementary Financial Statements

Council Tax Income Account

2019	5/16		2016	6/17
£'000	£'000		£'000	£'000
	(57,679)	Gross Charges Levied		(58,004)
5,180		Less: Benefits	4,928	
5,180			4,928	
5,179		Discounts	4,579	
634		Provision for bad debts	645	
93		Miscellaneous	10	
	11,086			10,162
	(46,593)			(47,842)
	(46,593)	Total Income Credited to the Comprehensive Income & Expenditure Statement		(47,842)

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2016

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2016/17 £
A	16,568	6/9	11,045	722.67
В	12,743	7/9	9,911	843.11
С	7,000	8/9	6,222	963.56
D	5,891	9/9	5,891	1,084.00
E	6,364	11/9	7,778	1,324.89
F	4,723	13/9	6,822	1,565.78
G	4,366	15/9	7,277	1,806.67
н	455	18/9	910	2,168.00
Total	58,110		55,856	
Less: Reductions for est and non-collection	imated discounts, exemptic	(12,247)		
		£43,609		

Note 2 Water and Waste Water Charges

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

Supplementary Financial Statements

Non-Domestic Rate Income Account

2015	5/16		2016	5/17
£'000	£'000		£'000	£'000
	(44,105)	Gross Rates Levied & Contribution in Lieu		(45,308)
12,877		Less: Reliefs and Other Deductions	12,030	
375		Write-offs of uncollectable debts & allowance for impairment	399	
	13,253	Interest paid on overpaid rates		12,429
	(30,853)			(32,879)
	(135)	Net General Fund expenditure on discretionary reliefs		(155)
	(30,988)	Net Non-Domestic Rate Income		(33,034)
	(170)	Adjustment to Previous Years National Non-Domestic Rates		0
	(31,158)	Contribution to National Pool		(33,034)
	33,707	Distribution received from National Pool		33,594
	(33,707)	Income Credited to the Comprehensive Income & Expenditure Statement		(33,594)

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2017

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

Note 2 Non-Domestic Rates

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

Trust Funds

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

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

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

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

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

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

Comprehensive Income & Expenditure Statements

2015/16		Charitable	Other	2016/17 Total
£'000		£'000	£'000	£'000
	Income			
(64)	Dividends and Interest	(38)	(30)	(68)
(55)	Rents		(42)	(42)
(4)	Donations & Grants	-	(10)	(10)
0	Unrealised Gain on Investments	3	6	9
	Expenditure			
9	Administration	-	-	-
37	Grants to Beneficiaries	9	192	201
84	Depreciation	26	71	97
7	(Surplus) / Deficit for the Year	-	187	187
(826)	(Surplus) brought forward	(329)	(491)	(820)
(84)	Funding (brought forward/carried forward) to Revaluation Reserve	(26)	(71)	(97)
3	Transfer to Capital Reserve	(3)	(125)	(128)
80	Movement between Revenue & Capital Reserves	-	(10)	(10)
(820)	(Surplus) carry forward	(358)	(510)	(868)

Trust Funds

Balance Sheet

2015/16		Charitable	Other	2016/17 Total
£'000		£'000	£'000	£'000
	Non-current Assets			
1,688	Land and Buildings	286	1,502	1,788
2,010	Investments	743	1,130	1,873
2	Long term Loan	-	1	1
	Current Assets			
271	Short Term Investments	75	269	344
22	Sundry Debtors	-	-	-
	Current Liabilities			
(15)	Sundry Creditors	-	(16)	(16)
3,978	Net Assets	1,104	2,886	3,990
	Financed by			
(820)	Revenue Reserve	(358)	(510)	(868)
(1,538)	Capital Reserve	(512)	(890)	(1,402)
(1,620)	Revaluation Reserve	(234)	(1,486)	(1,720)
(3,978)		(1,104)	(2,886)	(3,990)

Common Good Funds

The Council administers the Common Good Funds for nine towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2017, for each of the funds. The accounting policies applied are those as set out in pages 45 to 56.

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

Restated 2015/16 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income										
(237)	Fees and Charges			(107)				(12)	(49)	(70)	(238)
(54)	Investment Income		(4)	(11)	-	(25)	(7)	(7)	(10)	(5)	(69)
(105)	Grant Income	(1)	(1)	(6)		(1)	(1)	(6)	(6)	(5)	(27)
(396)		(1)	(5)	(124)	-	(26)	(8)	(25)	(65)	(80)	(334)
	Expenditure										
124	Property Costs	(1)		74				6	12	22	113
272	Depreciation		36	40	17	12	43	11	37	76	272
48	Administrative Costs	2	2	11		4	2	10	7	10	48
	Donations and Contributions			37		76	5	2	24	27	171
533		1	38	162	17	92	50	29	80	135	604
	(Surplus) / Deficit before unrealised losses		33	38	17	66	42	4	15	55	270

The 2015/16 Common Good Fund Comprehensive Income and Expenditure Statement has been restated for the transfer of Innerleithen Memorial Hall and Old Gala House to Innerleithen and Galashiels Common Good Funds respectively as other Recognised Gains/(losses) rather than income.

Common Good Funds

Balance Sheets

(10,542) Revaluation Reserve

(13,895) Total Reserves

Total						2016/	17				
2015/16		Duns	Galashiels	Hawick	Innerleithen	Jedburgh	Kelso	Lauder	Peebles	Selkirk	Total
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Non-current Assets										
10,996	Land & Buildings		588	3,596	290	465	779	1,004	839	3,159	10,720
26	Heritage Assets		-	3		-	19		2	2	26
2,362	Investments	-	154	473		937	254	258	435	189	2,700
	Long Term Loan to Third Party			-		38		9			47
	Current Assets										
21	Sundry Debtors			4		5	-	7	2	2	20
475	Short Term Investments	18	10	38		7	37	21	41	83	255
	Current Liabilities										
(45)	Sundry Creditors			(11)		-		(1)	(8)	(3)	(23)
13,895	Net Assets	18	752	4,103	290	1,452	1,089	1,298	1,311	3,432	13,745
	<u></u>										
	Financed by										
(508)	Revenue Reserve	(18)	(10)	(31)		(49)	(37)	(32)	(35)	(82)	(294)
(2,845)	Capital Reserve		(307)	(609)	(135)	(940)	(254)	(264)	(485)	(190)	(3,184)

(435)

(752)

(18)

(3,463)

(4,103)

(155)

(290)

(463)

(1,452)

(798)

(1,089)

(1,002)

(1,298)

(791)

(1,311)

(3,160)

(3,432) (13,745)

(10,267)

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (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 Account Tables and Notes are set out on pages 101 to 107.

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

Subsidiaries

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

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

The Council is the sole trustee of the Common Good Funds and the Charitable Trust Funds and summary financial results for these entities appear on pages 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.

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

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

Group Accounts

Associates

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

Jedburgh Leisure Facilities Trust

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

The Trust's accounts can be obtained from their registered office at Oxnam Road, Jedburgh, TD8 6QH.

Joint Arrangements

Joint arrangements can be either joint operations or joint ventures. Joint operations are joint arrangements where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The following body has been recognised as a Joint Venture.

Scottish Borders Integration Joint Board

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

The Board's draft Comprehensive Income & Expenditure Statement show gross expenditure and income of £165.766m for the year of which £31.475m has been consolidated into the Group Accounts. Both the Balance Sheet and Movement In Reserves Statement show a net position of £0 for 2016/17.

The financial statements for the Scottish Borders Integration Joint Board are available from the Council Headquarters.

Group Movement in Reserves Statement

Movement in reserves during 2015/16 - Restated

Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
£'000	£'000	£'000	£'000	£'000	£'000	£'000
(27,896)	(6,187)	(34,083)	9,579	(12,291)	(2,712)	(36,795)

Balance at 01/04/2015

Movement in reserves during 2015/16

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase or Decrease in 2015/16

Balance at 31/03/2016 carried forward

(4,786)	(207)	(4,993)	(43,758)	498	(43,260)	(48,253)
, , ,	` ′	` ' '	, , ,		` ' '	` ' '
1,518	(356)	1,162	(1,518)	356	(1,162)	-
	, ,		,		,	
(3,268)	(563)	(3,831)	(45,276)	854	(44,422)	(48,253)
(31,164)	(6,750)	(37,914)	(35,697)	(11,437)	(47,134)	(85,048)

Movement in reserves during 2016/17

Balance at 01/04/2016

Restatement Due To Change In Recognition

Restated Balance at 01/04/2016

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
(31,164)	(6,750)	(37,914)	(35,697)	(11,437)	(47,134)	(85,048)
	(814)	(814)		(346)	(346)	(1,160)
(31,164)	(7,564)	(38,728)	(35,697)	(11,783)	(47,480)	(86,208)

Movement in reserves during 2016/17

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase or Decrease in 2016/17

Balance at 31/03/2017 carried forward

5,343	(240)	5,103	63,754	5,768	69,522	74,625
(119)	(369)	(488)	119	369	488	
5,224	(609)	4,615	63,873	6,137	70,010	74,625
(25,940)	(8,173)	(34,113)	28,176	(5,646)	22,530	(11,583)

Group Comprehensive Income and Expenditure Statement

					001017	
20	15/16 Restate	ed			2016/17	
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditur
£'000	£'000	£'000		£'000	£'000	£'000
36,087	(3,267)	32,820	Chief Executive	54,627	(10,759)	43,86
188,955	(17,506)	,	People	231,202	(64,029)	167,17
70,822	(15,363)		Place	65,393	(17,919)	47,47
34,991	(31,218)		Other	35,184	(32,932)	2,25
1,413	-	1,413	Non-Distributed Costs	4,143	-	4,14
533	(343)		Common Good	604	(307)	29
130	(59)		Trust Funds	298	(43)	25
2,718	(2,663)		Share of Operating Results of Associates & Joint Ventures	31,549	(31,550)	
335,649	(70,419)	265,230	Services provided by the Council	423,000	(157,539)	265,46
335,649	(70,419)	265,230	Net Cost of Services	423,000	(157,539)	265,46
6,600	(6,698)	(98)	Roads Trading Operation (Surplus)/Deficit (External)	10,939	(11,030)	(9
			Other Operating Expenditure			
1,915	(1,263)	652	(Gain)/Loss on Disposal of Assets	1,598	(1,581)	1
			Financing & Investment Income and Expenditure			
12,320	-	12,320	Interest Payable & Similar Charges	11,879	-	11,87
-	(149)	(149)	Interest Receivable & Similar Income	-	(78)	(7
21,224	(15,644)	5,580	Net Interest Expense on the Net Defined Benefit Liability	22,468	(17,293)	5,17
3	-	3	Share Of Associates & Joint Ventures Interest Payable	-	-	
			Taxation and Non-Specific Grant Income			
-	(178,870)	(178,870)	Revenue Support Grant	-	(170,200)	(170,20
-	(33,707)	(33,707)	Non-Domestic Rates Pool for Scotland	-	(33,594)	(33,59
11,086	(57,679)	(46,593)	Council Tax	10,162	(58,004)	(47,84
-	(28,939)	(28,939)	Capital Grants and Contributions	-	(23,709)	(23,70
		(4,571)	(Surplus)/Deficit on Provision of Services			7,018

Group Comprehensive Income and Expenditure Statement

Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		(4,571)	(Surplus)/Deficit on Provision of Services			7,018
		(8,426)	(Surplus)/Deficit on revaluation of Non Current Assets			(5,835)
		(353)	Any Other (Gains) Or Losses			(1,177)
		(34,903)	Actuarial (gains)/losses on pension assets/liabilities			74,619
		(43,682)	Other Comprehensive Income and Expenditure			67,607
		(48,253)	Total Comprehensive Income and Expenditure			74,625

Group Balance Sheet

Destated		
Restated		2046/47
2015/16		2016/17
£'000	Describe Direct and Environment	£'000
0.40.400	Property Plant and Equipment	005 000
318,192	Other Land and Buildings	325,082
15,361	Vehicle, Plant, Furniture & Equipment	18,199
89,035	Infrastructure	123,534
4,116	Surplus Assets	3,838
33,108	Assets Under Construction	27,259
1,040	Heritage Assets	1,062
230	Intangible Assets	52
4,372	Long Term Investments	4,574
1,330	Investments in Associates & Joint Ventures	198
4,131	Long Term Debtors	3,914
470,915	Long Term Assets	507,712
676	Intangible Assets - Current	411
-	Short Term Investments	-
1,051	Inventories	1,025
48,017	Short Term Debtors	41,482
(9,525)	less Bad Debt Provision	(10,150)
17,902	Cash and Cash Equivalents	13,414
58,121	Current Assets	46,182
(3,261)	Short Term Borrowing	(12,300)
(53,192)	Short Term Creditors	(54,568)
(1,491)	Provisions	(804)
(57,944)	Current Liabilities	(67,672)
(171,996)	Long Term Borrowing	(184,392)
(52,864)	Deferred Liabilities	(51,252)
(422)	Liabilities of Associates & Joint Ventures	(196)
(4,305)	Provisions	(3,972)
(13,868)	Capital Grants Receipts in Advance	(11,852)
(243,455)	Long Term Liabilities	(251,664)
227,637	Net Assets excluding pension liability	234,558
(142,589)	Pension Liability	(222,975)
85,048	Net Assets/(Liabilities) including pension liability	11,583
05,048	Met Assets/(Liabilities) including pension hability	11,583

Group Balance Sheet

2015/16	Financed By:	2016/17
£'000		£'000
	Useable Reserves	
(6,578)	Capital Fund	(6,521)
(23,163)	General Fund Balance	(18,294)
(102)	Property Maintenance Fund	-
(1,321)	Insurance Fund	(1,125)
(6,750)	Share of Group Entities Usable Reserves	(8,173)
	Unusable Reserves	
(118,459)	Capital Adjustment Account	(127,102)
5,189	Financial Instruments Adjustment Account	4,980
(70,201)	Revaluation Reserve	(72,079)
141,592	Pension Reserve	216,025
6,182	Employee Statutory Adjustment Account	6,352
(11,437)	Share of Group Entities Unusable Reserves	(5,646)
(85,048)	Total Reserves	(11,583)

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017

Group Cash Flow Statement

Restated			
2015/16		2016	6/17
£'000		£'000	£'000
(4,571)	Net (Surplus) or deficit on the provision of services	7,018	
(57)	Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement	1	
(39,580)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(30,018)	
28,203	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	23,891	
(16,005)	Net Cash Flows From Operating Activities		892
	Investing Activities		
47,958	Purchase of PP&E, investment property and intangible assets	48,930	
(1,263)	Proceeds from PP&E, investment property and intangible assets	(1,581)	
189	Purchase/(Disposal) of short & long term investments	(72)	
(34,685)	Other Items which are Investing Activities	(21,417)	
12,199	Net Cash Flows from Investing Activities		25,860
	Financing Activities		
-	Cash received from loans & other borrowing	(21,314)	
1462	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,613	
	Repayments of short and long term borrowing	96	
	Other items which are financing activities	(2,439)	
905	Net Cash Flows from Financing Activities	(2,433)	(22,044)
303	Net out 1 10 ms from 1 manoning Activities		(22,044)
(2.901)	Net (Increase) or Decrease in Cash and Cash Equivalents		4,708
(=,00.1)			.,. 50
15,001	Cash and Cash Equivalents at the beginning of the reporting period		18,121
	Cash and Cash Equivalents at the end of the reporting period		13,413
(2,901)	Movement		4,708

Notes to the Group Accounts

Note 1 Group Accounting Policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 45 to 56.

The Council has accounted for its interest in each subsidiary using the acquisition method of accounting. The Council's interest in associates and joint ventures has been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note 2 Group Cash Flow

A reconciliation between the Group Income and Expenditure Statement and the revenue activities in the Group Cash Flow Statement is provided in the table below:

2015/16 £'000 Reconciliation to General Fund Surplus (4,571) Net (Surplus) or deficit on the provision of services 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	
(4,571) Net (Surplus) or deficit on the provision of services Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are	7,018
A djustments for associate entities included in the net (surplus) or deficit on the provision of services that are	,
(surplus) or deficit on the provision of services that are	1
Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(21,385) Depreciation	(22,467)
(8,901) Impairment & Revaluation Loss through I & E	(1,662)
(218) Amortisation of intangible assets	(188)
(11,246) Movement in pension liability	(6,385)
(652) Gain/Loss on carrying amounts of assets disposed	(17)
85 Net movement in inventories charged to I & E	(40)
10,808 Net movement in debtors charged to I & E	(489)
(8,061) Net movement in creditors charged to I & E	581
(10) Net movement in provisions charged to I & E	648
(39,580)	30,018)
Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
28,939 Capital grants received	23,709
Any other items received for the financing of capital or to meet principal (736) repayments which have been recognised through the I & E	182
28,203	23,891
(16,005) Net Cash Outflow / (Inflow) from Operating Activities	892

Note 3 Financial Impact of Group Consolidation

The inclusion of the group entities has an impact on the Council's single entity position on provision of services. The deficit of £5.3m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group deficit of £6.9m. The effect on the group balance sheet is an increase in net assets and reserves of £13.8m (£18.2m increase in 2015/16).

Independent Auditor's Report

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

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Scottish Borders Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the Council Tax Income Account, and the Non-domestic Rate Income Account and notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 Financial Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Financial Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Independent Auditor's Report

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Assistant Director Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Glossary of Terms

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Aggregate External Finance (AEF): this is the term given to the total of funding provided by the Scottish Government. It comprises three parts, which are explained below;

- Revenue Support Grant (RSG): this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.
- Non-Domestic Rate Income (NDRI): local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.
- **Specific Grants:** the final part of AEF. As the name suggests these grants are paid to support specific services/activities and can enable the Scottish Government to more directly influence service provision than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure. Each financial year budget is part of a 5 year Revenue or a 10 year Capital Financial Plan.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are schools, major road works, improving social work and leisure facilities. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and developer contributions. It can be used to fund capital expenditure or make payments of loan principal.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Common Good Funds: have been accumulated by former burghs since their foundation from the 12th Century onwards. They are held by the Council as custodian for the benefit of residents of the 9 former burghs, Duns, Innerleithen, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk. They are administered by the Council to have regard to the interest of the inhabitants of the area to which the Common Good formally related.

All of the Common Good Funds are presently registered as a single charity with OSCR.

Glossary of Terms

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band

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 Scotlish Government and Scotlish 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, shortterm 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.

assets preserved in trust for future generations because of their cultural, Heritage Assets: environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: The Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Glossary of Terms

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Ratios: financial analysis tools to support the evaluation of the financial health of the organisation.

Rents, Fees and Charges: add in charges for specific service; examples include home care charges, commercial rents, hall lets and library fines.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Property Maintenance Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and Employee Statutory Adjustment Account.

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: The Council administers 289 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 112 of which have charitable status and have been reorganised into 6 charities registered with the Office of the Scottish Charity Regulator (OSCR).

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

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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 Common Good Funds Charity Registration Number: SC031538

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

The Charity comprises of the nine Common Good Funds within Scottish Borders Council, each holding property which it is responsible for maintaining, with many distributing grants to local causes which are eligible within its charitable purpose.

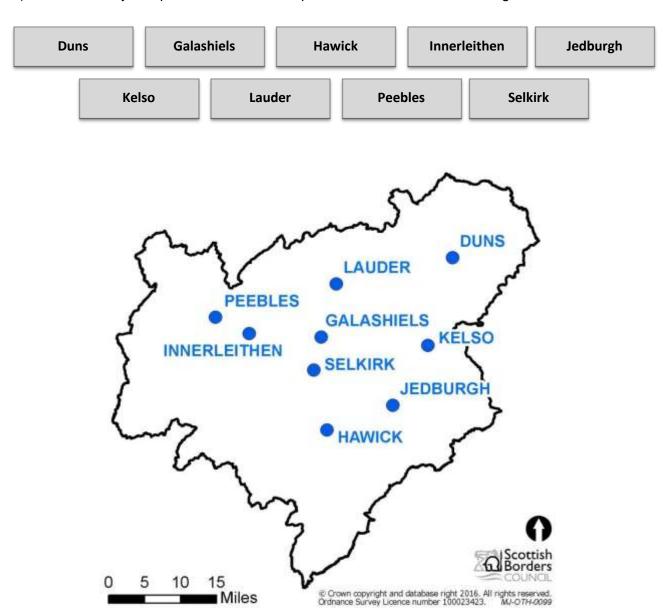
Each Common Good Fund within the charity has financial investments and / or property assets; the operational management of which is overseen by individual Sub-Committees of Elected Members from the relevant ward(s), supported by officers from the Council.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

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



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

Charitable Purpose

- •The charitable purposes of the Common Good Funds are that, subject to their legal responsibilities in terms of any assets held by the charities, the **funds are operated for the common good of the residents** of the aforesaid former Burghs and may be used to **provide advancement of citizenship or community development**.
- •In respect of those funds which have land and property, the Trustees recognise their obligations to ensure that these assets are maintained.

Summary of the Main Activities

- •The Charity has taken steps to ensure that the **assets of the Funds are properly managed and accounted for**. Quarterly budget monitoring reports have been prepared for consideration by the Trustees forming the Working Group for each individual Burgh and the minutes of these meetings reported to the full Council in terms of the Code of Governance.
- •Maintenance work has been approved and carried out on fixed assets and responses made to applications for financial assistance as detailed in the Notes to the Financial Statements on page 15.
- •Most of the funds have made donations to eligible beneficiaries in their Burghs with a total of £171,022 being paid out in the year.

Plans for the Future

- •The Common Good Funds will continue to **maintain their heritable assets and will look to maximise their income** from any of these assets which are let commercially. Where assets are used by third parties towards the Common Good of the Burgh then rental levels may reflect this aspect of the tenants' activity.
- •Where funds permit, the Common Good Funds will look to make grants to organisations in their Burghs which will provide benefit to the Burgh residents, as approved by the individual Common Good Committees.

Governance and Management

Type of Governing Documents

- a) The overarching governance of the Charity is the principle of statute and common law. The statutory framework is the successive Acts from the Common Good Act 1491 through to the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003. Cognisance is also to be taken of the various judicial opinions in case law governing the treatment of Common Goods.
- b) The funds are governed by Trustees 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 Financial Reporting Standard 102 (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the Common Good Funds amounted to:

- Restricted Income Funds £3,478k
- Revaluation Reserves £10,268k

Per the Councils Common Good and Trust Fund investment strategy the main Investments

balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

Charity Name Scottish Borders Council Common Good Funds

Charity registration number SC031538

Business Address Council HQ

Newtown St Boswells

Melrose

Scottish Borders

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

,		
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	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 Weatherston
Bill White		

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Common Good Funds which is recognised within Other: governance costs in the financial statements. All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam Trustee **Scottish Borders Council Common Good Funds** 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £'000 Restated		2016/17 £'000	Notes
	Income from:		
105	Donations and legacies	27	1
54	Investments	69	2
237	Charitable activities	238	
396	Total Income	334	
	Expenditure on:		
(396)	Raising funds	(385)	
(89)	Charitable activities	(171)	
(48)	Other: governance costs	(48)	
(533)	Total Expenditure	(604)	3
(33)	(Losses) / gains on investment assets – unrealised	(8)	
(170)	Net Income / (Expenditure)	(278)	
	Other Recognised Gains / (Losses)		
103	Gains on revaluation of fixed assets	0	
570	Recognition of Fixed Assets and Investments	128	7
503	Net Movement in Funds	(150)	
	Reconciliation of Funds		
13,392	Total funds brought forward	13,895	
13,895	Total Funds Carried Forward	13,745	

2015/16 Statement of Financial Activities has been restated to account for the transfer of Innerleithen Memorial Hall and Old Gala House to Innerleithen and Galashiels Common Good Funds respectively as other Recognised Gains / (Losses) rather than income.

BALANCE SHEET as at 31 March 2017

as at 31 March 2016			as at 31 March 2017		Notes
£'000	£'000		£'000	£'000	
		Long Term Assets			
11,022		Tangible assets	10,746		5
2,361		Investments	2,700		6
60		Long term loan to third party	47		
	13,443	Total Long Term Assets		13,493	
		Current Assets			
21		Debtors	20		
476		Short term investment in SBC loans fund	255		
	497	Total Current Assets		275	
		Current Liabilities			
	(45)	Creditors: Amounts falling due within 1 year		(23)	
	452	Net Current Assets		252	
	13,895	Total Net Assets		13,745	
		The Funds of the Charity			
	(3,353)	Restricted income funds		(3,478)	7
	(10,542)	Revaluation reserve		(10,267)	
	(12 905)	Total Charity Funds		(12 745)	
	(13,895)	Total Glarity Fullus		(13,745)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Common Good Funds 28 September 2017

CASH FLOW STATEMENT as at 31 March 2017

The Cash Flow Statement shows how the Common Good Funds generate and use cash as classified into operating, investing and financing activities. The amount of cash held by Common Good Funds at the year-end is always nil, as all surplus cash is invested in the short term, in the SBC Loans Fund.

as at 31 March 2016			as at 31 March 2017		Notes
£'000	£'000		£'000	£'000	
		Operating Activities			
	(170)	Net Income / (Expenditure)		(278)	
		Adjustments to Net Income / (Expenditure) For Non Cash Movements			
272		Depreciation & Impairment	275		5
(21)		Net Movement in Debtors Net Movement in Creditors	(1)		
(21)	252	Total Adjustments to Net Income /	(22)	252	
	202	(Expenditure)		202	
	82	Net Cash Flows from Operating Activities		(26)	
		Investing Activities			
(87)		Disposal / (Purchase) of Short Term Assets	221		
(45)		(Purchase) / Disposal of Long Term Assets	(216)		
33	(0.0)	Other Items which are Investing Activities	8		
	(99)	Net Cash Flows from Investing Activities		13	
		Financing Activities			
17		Cash Received from Loans	13		
	17	Net Cash Flows from Financing Activities		13	
	0	Net Movement in Cash		0	

ACCOUNTING POLICIES

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

Basis of Preparation 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 FRS102, 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 FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Accruals of Income and Expenditure

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

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

Donations & Legacies

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

Resources Expended

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

Tangible Fixed Assets and Depreciation

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

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

Investments

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

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

Short Term Investments

Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

2015/16 £000		2016/17 £'000
1	Duns	2
4	Galashiels	1
16	Hawick	6
0	Innerleithen	0
14	Jedburgh	1
1	Kelso	1
56	Lauder	6
8	Peebles	5
5	Selkirk	5
105		27

2 Income from Investments

2015/16 £000		2016/17 £'000
3	Bank Interest Receivable from SBC Loans Fund	3
51	Income from Investment Portfolio	66
54		69

3 Analysis of Charitable Expenditure

2015/16 Total		Activities Undertaken Directly	Support and Governance Costs	Property Cost & Depreciation	2016/17 Total
£'000		£'000	£'000	£'000	£'000
4	Duns	0	2	1	3
39	Galashiels	0	2	36	38
142	Hawick	37	11	112	160
17	Innerleithen	0	0	17	17
27	Jedburgh	77	3	12	92
52	Kelso	5	2	43	50
31	Lauder	2	10	17	29
97	Peebles	24	8	49	81
124	Selkirk	26	10	98	134
533		171	48	385	604

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. No Trustee remuneration or other expenses were incurred.

5 Tangible Assets

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

As at 31		as at 31 March 2017			
March 2016 Total		Asset Impairment	Depreciation	Total	
£'000		£'000	£'000	£'000	
3	Duns	(3)	0	0	
625	Galashiels	0	(36)	588	
3,638	Hawick	0	(40)	3,598	
307	Innerleithen	0	(17)	290	
476	Jedburgh	0	(12)	464	
840	Kelso	0	(43)	797	
1,017	Lauder	0	(11)	1,006	
879	Peebles	0	(37)	842	
3,237	Selkirk	0	(76)	3,161	
11,022		(3)	(272)	10,746	

The asset disposal in Duns relates to No. 10 South Street, Duns, which was transferred at nil consideration to the Queen's & Lord Treasurer's Remembrancer, following investigations relating to legal title of the property.

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

As at 31	as at 31 March 2017			
March 2016 Total		Land & Buildings at Net Book Value	Heritage Assets	Total Long Term Assets
£'000		£'000	£'000	£'000
3 625 3,638 307 477 841 1,016 878 3,237	Duns Galashiels Hawick Innerleithen Jedburgh Kelso Lauder Peebles Selkirk	0 589 3,595 290 464 778 1,006 840 3,159	0 0 3 0 0 19 0 2	0 588 3,598 290 464 797 1,006 842 3,161
11,022		10,721	25	10,746

6 Investments

All investments are through a recognised investment exchange, as at 31 March 2017 all investments were with the Newton Real Return Fund. Investment amounts and unrealised gains on these investments since inception, as at 31 March 2017, per Common Good Fund are detailed below:

As at 31 March 2016		as at 31 March 2017			
Total Investment		Newton Investment	Unrealised Gain	Total Investment	
£'000		£'000	£'000	£'000	
0	Duns	0	0	0	
25	Galashiels	149	5	154	
372	Hawick	459	14	473	
0	Innerleithen	0	0	0	
941	Jedburgh	915	22	937	
255	Kelso	246	8	254	
249	Lauder	250	8	258	
384	Peebles	422	13	435	
135	Selkirk	185	4	189	
2,361		2,626	74	2,700	

7 Restricted Income Funds

Balance at 31 March 2016 £'000		Unrealised movement on investment assets	Other income: donations	SOFA Surplus	Balance at 31 March 2017 £'000
20	Duns	0	0	1	21
186	Galashiels	(1)	128	3	316
635	Hawick	1	0	3	639
135	Innerleithen	0	0	0	135
1,047	Jedburgh	(4)	0	(53)	990
291	Kelso	(1)	0	1	291
291	Lauder	(1)	0	6	296
497	Peebles	(1)	0	22	518
251	Selkirk	(1)	0	22	272
3,353		(8)	128	5	3,478

The total donation of £128k above represents the capital transfer of Newton investment held by the Ladhope Estate trust into the Galashiels Common Good Fund.

8 Contingent Assets

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and accounts of Scottish Borders Council Common Good Funds for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

Scottish Borders Council Council Headquarters

Newtown St Boswells

MELROSE TD6 0SA

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: Imirley@scotborders.gov.uk







Scottish Borders Council SBC Welfare Trust

Charity Registration Number: SC044765

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

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

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

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

During 2016/17 further work on the reorganisation of charity funds continued and will continue in 2017/18 and is expected to result in additional resources being transferred into this Charitable Trust.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust.

Charitable Purpose

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

Summary of the Main Activities

•The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. The charity made donations to two eligible beneficiaries during the year to 31 March 2017.

Plans for the Future

- •The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.
- •It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of exsting disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Education Trust in 2017/18.

Governance and Management

Type of Governing Documents

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

Financial Regulations Code of Corporate Governance

Procedural Standing Orders

Scheme of Administration

Scheme of Delegation

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

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 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the SBC Welfare Trust amounted to:

• Restricted Income Funds - £110,968

Investments

Per the 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

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

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	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 Weatherston
Bill White		

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

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

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

Shona Haslam Trustee Scottish Borders Council Welfare Trust 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £		2016/17 £	Notes
	Income From:		
2,677	Investments	2,529	1
2,677	Total Income	2,529	
	Expenditure on:		
176	Charitable activities	(278)	2
176	Total Expenditure	(278)	
(1,678)	(Loss) / gain on investment assets	(407)	
1,175	Net Movement in Funds	1,844	
	Reconciliation of Funds		
107,949	Total funds brought forward	109,124	
109,124	Total Funds Carried Forward	110,968	6

BALANCE SHEET as at 31 March 2017

as at 31 March 2016 RESTATED			as at 31 March 2017		Notes	
£	£		£	£		
		Fixed Assets				
98,898		Investments	98,491		4	
	98,898			98,491		
		Current Assets				
	10,226	Short term investment in SBC loans fund		12,477	5	
		Current Liabilities				
	0	Creditors: Amounts falling due within 1 year		0		
	10,226	Net Current Assets		12,477		
	109,124	Total Net Assets		110,968		
		The Funds of the Charity				
(109,124)		Restricted income funds	(110,968)		6,7	
	(109,124)	Total Charity Funds		(110,968)		

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue of 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Welfare Trust 28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

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

Accruals of Income and Expenditure

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

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

Funds Structure

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

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

Donations & Legacies

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

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

Resources Expended

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

Investments

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

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

Short Term Investments

Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2015/16 £		2016/17 £
95	Bank Interest Receivable	33
2,582	Income from Investment Portfolio	2,496
2,677		2,529

2 Charitable Activities

Charitable activities during the year related to grants accrued and or paid to:

Galashiels Local Relief Fund - £108.86, and Senior Citizens Co-Ordinating Committee - £168.33

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses were incurred.

4 Investments

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

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Short Term Investments in SBC Loans Fund

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

6 Restricted Funds

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

2015/16 Balance	Restricted by Area	Restricted by Purpose	Income	Expenditure	Loss on investment assets	2016/17 Balance
£	£		£	£	£	£
60,151	Mid & East Berwickshire	a&b	1,361	0	218	61,294
4,188	Galashiels & District	a&b	109	109	18	4,170
8,898	Leaderdale & Melrose	a&b	205	0	33	9,070
19,875	Jedburgh & District	a&b	476	0	77	20,274
8,120	Hawick/Denholm/Hermitage	a&b	192	0	31	8,281
717	Tweeddale East & West	Unrestricted	17	0	3	731
7,175	Tweeddale East & West	a&b	168	168	27	7,148
109,124			2,528	277	407	110,968

7 Reserves Policy

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

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

At 31 March 2017, the reserves of the SBC Welfare Trust amounted to:

• Restricted Income Funds - £110,968

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Welfare Trust and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Welfare Trust for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9 DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

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 SBC Education Trust

Charity Registration Number: SC044762

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Education Trust, the "Trust", in 2014/15. Investigative work commenced in 2015/16 to identify further "Educational" trusts which could be integrated into this Charity. This work continued in 2016/17 and is planned to be substantially concluded in 2017/18 with the proposed amalgamation of numerous educational based trusts and bequests into the SBC Education Trust

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust according to its charitable purpose.

Charitable Purpose

• To advance and/or promote cultural exchange by, among other things, the payment of grants and/or loans, the award of bursaries, the award of prizes, payment towards cultural exchanges that further an educational purpose both within Scottish Borders area and further afield (including abroad), to such educational institutions, charities or other organisations or to such individuals deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purpose of the advancement of education and/or promotion of cultural exchange.

Summary of the Main Activities

•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 2017.

Plans for the Future

- •The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.
- It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of exsting disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Education Trust in 2017/18.

Governance and Management

Type of Governing Documents

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

Financial Regulations Code of Corporate Governance

Procedural Standing Orders

Scheme of Administration

Scheme of Delegation

- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with FRS102, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the SBC Education Trust amounted to:

Restricted Income Funds - £1,811

Investments

Per the 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

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

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	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 Weatherston	
Bill White			

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

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

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

Shona Haslam Trustee Scottish Borders Council Education Trust 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102.

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £		2016/17 £	Notes
	Income from:		
119	Investments	131	
119	Total Income	131	
(40)	Expenditure on:	(50)	,
(42)	Charitable activities	(50)	1
(42)	Total Expenditure	(50)	
(24)	(Loss) / gains on investment assets	(7)	
53	Net Movement in Funds	74	
	Reconciliation of Funds		
1,684	Total funds brought forward	1,737	
1,737	Total Funds Carried Forward	1,811	

BALANCE SHEET as at 31 March 2017

as at 31 March 2016			as at 31 March 2017		Notes
£	£		£	£	
		Fixed Assets			
1,592		Investments	1,585		3
	1,592			1,585	
		Current Assets			
	145	Short term investment in SBC loans fund.		226	4
	145	Net Current Assets		226	
	1,737	Total Net Assets		1,811	
		The Funds of the Charity			
(1,737)		Restricted income funds	(1,811)		
	(1,737)	Total Charity Funds		(1,811)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Education Trust 28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, 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 FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Accruals of Income and Expenditure

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

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

Donations & Legacies

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

Resources Expended

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

Investments

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

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

Short Term Investments

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 provided a grant to one eligible beneficiary during the year to 31 March 2017.

2 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses were incurred.

3 Investments

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

At 31 March 2017 all investments were with the Newton Real Return Fund.

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

Independent auditor's report to the trustees of Scottish Borders Council Education Trust and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Education Trust for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

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: Imirley@scotborders.gov.uk







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

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

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

- a) The advancement of community development;
- b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets:
- The provision of recreational facilities, or the organisation of recreational activities, with the object of improving the conditions of life for the persons for whom the facilities or activities are primarily intended; or
- d) The advancement of environmental protection or improvement.

During 2016/17 further work on the reorganisation of charity funds continued and it is planned that further resources will be transferred into this Trust in 2017/18.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust.

Charitable Purpose

- The advancement of Community Development;
- •The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
- •The provision of recreational facilities, or the organisation of recreational activities, with the object of improving the conditions of life for the persons for whom the facilities or 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 2016/17.

Plans for the Future

- •The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.
- •It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of exsting disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Community Enhancement Trust in 2017/18.

Governance and Management

Type of Governing Documents

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

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 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the SBC Community Enhancement Trust amounted to:

Restricted Income Funds - £73,560.

Investments

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

Reference and Administrative Information

Charity Name SBC Community Enhancement Trust

Charity registration number SC044764

Business Address Council HQ

Newtown St Boswells

Melrose

Scottish Borders

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

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	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 Weatherston
Bill White		

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Community Enhancement Trust.

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

Shona Haslam Trustee Scottish Borders Council Community Enhancement Trust 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £		2016/17 £	Notes
	Income from:		
2,419	Investments	1,873	1
2,419	Total Income	1,873	
	Expenditure on:		
0	Charitable activities	0	2
0	Total Expenditure	0	
(1,097)	(Loss) / gain on investment assets	(304)	4,5
1,322	Net Movement in Funds	1,569	
	Reconciliation of Funds		
70,669	Total funds brought forward	71,991	5
71,991	Total Funds Carried Forward	73,560	5

BALANCE SHEET as at 31 March 2017

as at 31 March 2016			as at 31 March 2017		Notes
£	£		£	£	
		Fixed Assets			
73,824		Investments	73,521		4
	73,824			73,521	
		Current Assets			
	0	Short term investment in SBC loans fund.	39		
		Current Liabilities			
	(1,833)	Creditors: Amounts falling due within 1 year		0	
	(1,833)	Net Current Assets		39	
	71,991	Total Net Assets		73,560	5
		The Funds of the Charity			
(71,991)		Restricted income funds	(73,560)		
	(71,991)	Total Charity Funds		(73,560)	5

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Community Enhancement Trust 28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

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

Accruals of Income and Expenditure

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

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

Funds Structure

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

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

Income Recognition

Under FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Donations & Legacies

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

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

Resources Expended

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

Investments

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

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

Short Term Investments

Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2015/16 £		2016/17 £
26	Bank Interest Receivable	10
2,393	Income from Investment Portfolio	1,863
2,419		1,873

2 Charitable Activities

There were no charitable activities during 2016/17.

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses were incurred.

4 Investments

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

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Restricted Funds

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

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

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

2015/16 Balance	Restricted by Area	Restricted by Purpose	Income	Loss on investment assets	2016/17 Balance
£	£		£	£	£
1,494	Borders Wide	a	36	6	1,524
12,959	Berwickshire	Unrestricted	311	50	13,220
27,817	Berwickshire	b	824	135	28,506
517	Berwickshire	Henderson Park & War Mem.	14	2	529
1,600	Cheviot	Allerley Park	38	6	1,632
1,096	Selkirkshire	Unrestricted	26	4	1,118
19,674	Teviot & Liddiesdale	b	460	74	20,060
6,834	Teviot & Liddiesdale	a&b	164	27	6,971
71,991			1,873	304	73,560

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Community Enhancement Trust and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Community Enhancement Trust for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Community Enhancement Trust, please contact:

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

Scottish Borders Council Council Headquarters

Newtown St Boswells

MELROSE TD6 0SA

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: Imirley@scotborders.gov.uk





Charity Registration Number: SC015647

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

In late 2012/13 the reorganisation of 34 registered charities was formally recognised by OSCR and this work continued in 2015/16 with full approval of OSCR. The Thomas Howden Wildlife Fund was not included in this initial reorganisation but work which commenced in 2016/17 will be completed in 2017/18, in conjunction with OSCR to reorganise this fund into the SBC Education Trust.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Charitable Purpose

•The bequest is to be used to make provision for 2 prizes at Peebles High School for wildlife educational activities with Trustees discretion not to award in any year.

Summary of the Main Activities

•The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2016/17.

Plans for the Future

• In 2016/17 work continued to reorganise the Thomas Howden Wildlife Award Fund into the SBC Education Trust which was established in the initial reorganisation of charities. This work was completed in March 2017 with Council approval for the reorganisation. A formal application will be made to OSCR in 2017/18.

Governance and Management

Type of Governing Documents

- a) The Charity came to be administered by the Council during local government reorganisation in 1996. The trust purpose was set out in a deed of trust by Williemeana Mary Andrew Howden in favour of the former education authority, The Borders Regional Council, dated 31 May 1988 although the principal deed is not held by the Council.
- b) The overarching governance of the Charity is the principle of statute and common law governing trusts and bequests. The statutory framework are through the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003.
- c) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial Regulations Code of Corporate Governance

Procedural Standing Orders

Scheme of Administration

Scheme of Delegation

- d) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- e) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the Thomas Howden Wildlife Award amounted to:

Restricted Income Funds - £4,432.37

Investments

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

Reference and Administrative Information

Charity Name Thomas Howden Wildlife Award Fund

Charity registration number SC015647

Business Address Council HQ

Newtown St Boswells

Melrose

Scottish Borders

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

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	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 Weatherston
Bill White		

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Thomas Howden Wildlife Award Fund

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

Shona Haslam Trustee Scottish Borders Council Thomas Howden Wildlife Award Fund 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for year ended 31 March 2017

2015/16 £0.00		2016/17 £0.00	Notes
	Income from:		
205.35	Investments	226.64	1
205.35	Total Income Expenditure on:	226.64	
0	Charitable activities	0	2
0	Total Expenditure	0	
(54.09)	(Loss) / gain on investment assets	(14.97)	
151.26	Net Movement in Funds	211.67	
	Reconciliation of Funds		
4,069.44	Total funds brought forward	4,220.70	
4,220.70	Total Funds Carried Forward	4,432.37	6

BALANCE SHEET as at 31 March 2017

as at 31 March 2016			as at 31 March 2017		Notes
£0.00	£0.00		£0.00	£0.00	
		Fixed Assets			
3,640.85		Investments	3,625.88		4
	3,640.85			3,625.88	
		Current Assets			
	579.85	Short term investment in SBC loans fund.		806.49	5
	579.85	Net Current Assets		806.49	
	4,220.70	Total Net Assets		4,432.37	
		The Funds of the Charity			
(4,220.70)		Restricted income funds	(4,432.37)		6
	(4,220.70)	Total Charity Funds		(4,432.37)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Thomas Howden Wildlife Award Fund 28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, 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 FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Resources Expended

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

Investments

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

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

Short Term Investments

Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2015/16		2016/17
£0.00		£0.00
1.51	Bank Interest Receivable	1.93
203.84	Income from Investment Portfolio	224.71
205.35		226.64

2 Charitable Activities

There were no charitable activities during 2016/17.

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses were incurred.

4 Investments

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

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Short Term Investments in SBC Loans Fund

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

6 Reserves Policy

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

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

At 31 March 2017, the reserves of the Thomas Howden Wildlife Award amounted to:

Restricted Income Funds - £4,432.37.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Thomas Howden Wildlife Award Fund and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Thomas Howden Wildlife Award Fund for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

For further information on the Thomas Howden Wildlife Award Fund, please contact:

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

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 Ormiston Trust for Institute Charity Registration Number: SC019162

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

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

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

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

Charitable Purpose

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

Summary of the Main Activities

- •The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for.
- •The funds generated during 2016/17 have been fully utilized during the year. The funds are expended on behalf of the Charity by Live Borders who manages facility on behlaf of the Trustees.

Plans for the Future

- •Scottish Borders Council will continue to manage the service on behalf of Trustees ensuring access to the services and building is provided.
- An ongoing project, led by the Trimontium Trust aims to expand and improve the Trimontium Museum, located in the Ormiston Institute.

Governance and Management

Type of Governing Documents

- a) The charity came to be administered by the Council during local government reorganisation in 1996. A Trust Disposition and settlement by the late Charles Walker Ormiston was requested with the books of Council and Session 13 February 1882. The present Council are the statutory successors to that body.
- a) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial Regulations Code of Corporate Governance Procedural Standing Orders

Scheme of Administration Scheme of Delegation

- c) When considering any action in connection with the Charity the Trustees must act in the interest of the Charity Funds.
- b) The financial statements comply with the Financial Reporting Standard 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the Ormiston Trust for Institute amounted to:

Restricted Income Funds - £295,897

Investments Per the Councils Common Good and Trust Fund investment strategy, the

main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

Charity Name Scottish Borders Council Common Good Funds

Charity registration number SC019162

Business Address Council HQ

Newtown St Boswells

Melrose

Scottish Borders

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were 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, at that time. These were:

Iain Gillespie Jim Torrance David Parker

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Ormiston Trust for Institute.

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

David Parker Trustee Scottish Borders Council Ormiston Trust for Institute 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £ Restated		2016/17 £	Notes
	Income From:		
256	Investments	257	1
256	Total Income	257	
	Expenditure on		
(25,500)	Raising funds	(25,500)	3
(256)	Charitable activities	(257)	2
(25,756)	Total Expenditure	(25,757)	
(151)	Gains/(Loss) / gain on investment assets	(49)	
(25,651)	Net Movement in Funds	(25,549)	
	Reconciliation of Funds		
347,097	Total funds brought forward	321,446	
321,446	Total Funds Carried Forward	295,897	

BALANCE SHEET as at 31 March 2017

as at 31 March 2016 Restated			as at 31 March 2017		Notes
£	£		£	£	
		Fixed Assets			
311,000		Tangible assets	285,500		4
10,141		Investments	10,092		5
	321,141			295,592	
		Current Assets			
305		Short term investment in SBC loans fund.	305		
	305	Total Current Assets		305	
	321,446	Total Net Assets		295,897	
		The Funds of the Charity			
	(321,446)	Restricted income funds	(295,897)		
	(321,446)	Total Charity Funds		(295,897)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue of 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 David Parker
Trustee
Scottish Borders Council Ormiston Trust for Institute
28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, 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 FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Accruals of Income and Expenditure

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

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

Donations & Legacies

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

Resources Expended

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

Tangible Fixed Assets and Depreciation

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

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

Investments

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

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

Short Term Investments

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

Upon close legal inspection of the Ormiston Trust disposition, it was clarified during 2016/17 that monies invested by the Greenyards Trust belongs to the Ormiston Trust. Therefore, income from bank interest and dividends have been included in restated 2015/16 figures as detailed below.

2015/16		2016/17
Restated		C1000
£'000		£'000
1	Bank Interest Receivable	1
255	Income from Investment Portfolio	256
256		257

2 Charitable Activities during 2016/17

A single grant is made to Live Borders to maintain the property and provide the services required under the Charity terms.

3 Property Costs

The property costs consist of a depreciation charge for the use of the asset and is funded from the Restricted Funds. This is not a cash transaction.

4 Tangible Fixed Assets

The charity has a fixed asset of the Ormiston Institute building in Melrose. As noted above, it was clarified during 2016/17 upon close legal inspection of the Ormiston Trust disposition that land at Greenyards in Melrose also belonged to the Trust. This land has a net book value of £86,000. The 2015/16 comparative figures in the Balance sheet have been restated to include this. In addition a historical depreciation adjustment has been accounted for in relation to the Ormiston Institute to bring the net book value at 31 March 2017 in line with the Council's fixed asset register.

The movement in the value of Tangible Fixed Assets has been driven solely by the annual depreciation charge in 2016/17 as follows:

	£'000 - Restated
Opening Balance at1 April 2016	311,000
Depreciation for year	25,500
Closing Balance at 31 March 2017	285,500

5 Investments

As mentioned above, investments in the Newton Fund held by the Greenyards Trust have been included in the restated 2015/16 accounts. All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

6 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses have been incurred.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Ormiston Trust for Institute and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Ormiston Trust for Institute for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice: and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

For further information on the Ormiston Trust for Institute, please contact:

Kirsty Robb Telephone: 01835 – 825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

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 SBC Charitable Trusts

Charity Registration Number: SC043896

annual report and financial statements

for the year to 31 March 2017



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FOREWORD

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

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

Work commenced in 2014/15 to re-organise a number of the other registered Charities managed by Scottish Borders Council into three new Charities covering Welfare, Community Enhancement and Education. The next phase of the work of re-organising the remaining funds held within this fund is planned to be completed in 2017/18 with full consultation and approval of OSCR.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

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

Charitable Purpose

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

Summary of the Main Activities

•A number of the funds have made donations to eligible beneficiaries during the year to 31 March 2017 totalling £8,645 including contributions through area based Education Trusts for Further Education including overseas study and travel as well as music and dance expenses.

Plans for the Future

•Work to re-organse these funds will continue during 2017/18 to enable the funds to be more easily used for their charitable purposes. It is anticipated that by the end of 2017/18 all 76 trusts and bequests will be amalgated into the Scottish Borders Education, Community Enhancement or Welfare Trusts in conjunction with all stakeholders, including OSCR.

Governance and Management

Type of Governing Documents

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

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 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2017, the reserves of the SBC Charitable Trust Funds amounted to:

Restricted Income Funds - £616,466

Investments

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

Reference and Administrative Information

Charity Name SBC Charitable Trusts

Charity registration number SC043896

Business Address Council HQ

Newtown St Boswells

Melrose

Scottish Borders

TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 2017 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

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	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 Weatherston
Bill White		

Due to Local Government elections on 4 May 2017, the trustees for the year to 31 March 2018 will change.

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

Auditor Audit Scotland

102 West Port Edinburgh EH3 9DN

Professional support

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

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

Shona Haslam Trustee Scottish Borders Council Charitable Trusts 28 September 2017

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRS102

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

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

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

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

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

2015/16 £		2016/17 £	Notes
	Income from:		
178	Donations and legacies	205	1
28,621	Investments	33,244	2
28,799	Total Income	33,449	
	Expenditure on:		
(18,628)	Charitable activities	(8,645)	3,7
(18,628)	Total Expenditure	(8,645)	
(8,262)	(Loss) / gain on investment assets	(2,280)	
1,909	Net Movement in Funds	22,524	
	Reconciliation of Funds		
592,033	Total funds brought forward	593,942	
593,942	Total Funds Carried Forward	616,466	

BALANCE SHEET as at 31 March 2017

as at 31 March 2016			as at 31 March 2017		Notes
£	£		£	£	
		Fixed Assets			
559,237		Investments	555,457		5
	559,237			555,457	
		Current Assets			
34,705		Short term Investment in SBC loans fund	61,009		6
		Taria			
	34,705	Total Current Assets		61,009	
	593,942	Total Net Assets		616,466	
				010,100	
(=00.04=)		The Funds of the Charity	(212.12-)		_
(593,942)		Restricted income funds	(616,466)		7
	(593,942)	Total Charity Funds		(616,466)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017 Shona Haslam Trustee Scottish Borders Council Charitable Trusts 28 September 2017

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the FRS102, 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 FRS102, income is recognised when it is receipt is "probable", rather than "virtually certain", which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

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

Accruals of Income and Expenditure

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

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

Donations & Legacies

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

Resources Expended

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

Investments

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

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

Short Term Investments

Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

Restricted

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

2 Investment Income

2015/16		2016/17
£		£
102	Bank Interest Receivable	127
28,519	Income from Investment Portfolio	33,117
28,621		33,244

3 Charitable Activities

The charitable activities during 2016/17 are shown in note 7 by individual fund within the charity. All expenditure incurred was for direct charitable activities.

4 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity. No Trustee remuneration or other expenses were incurred.

5 Investments

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

At 31 March 2017 all investments were with the Newton Real Return Fund.

6 Short Term Investments in SBC Loans Fund

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

Restricted Funds 7

2015/16 Balance	Fund	Income	Expenditure	2016/17 Balance
£	£	£	£	£
425	Alex Grieves Bequest (1)	11	13	423
291	Alex Grieves Bequest (2)	7	9	289
829	Andrew, Agnes & John Kyle	73	28	874
3,872	Ayton War Memorial Fund	96	98	3,870
6,518	Berwickshire Educational Trust	592	563	6,547
415	Brown Bequest	10	2	423
297	C W Dunnet Award	24	1	320
767	Campbell Calderhead Prize	47	3	811
16,285	Clive Craig-Brown Bequest	390	63	16,612
2,900	Col. Jem Richard Prize Fund	166	10	3,056
872	Coldstream Guards Prize	75	4	943
62	Coldstream War Memorial	2	2	62
1,558	Dalrymple's Mortification	37	6	1,589
1,358	Dr Milne Memorial Fund	75	5	1,428
103,269	Dunlop Bequest	2,473	400	105,342
1,791	Edgar Bequest	43	7	1,827
3,110	Elliot Mortification	75	12	3,173
3,162	Ewan Trust	76	12	3,226
1,100	Ex Provost Mercer's Bequest No1	28	32	1,096
210	Ex Provost Mrs Laidlaw's Benifaction	5	6	209
4,551	F W Dobson VC	344	19	4,876
16,832	Ferguson Dalwhinny Fund	403	65	17,170
2,438	G D Gibson's Bequest	62	72	2,428
15,609	Geoffrey Simpson Bequest	1,587	63	17,133
10,133	George D Gibson's Bequest	243	39	10,337
540	Hans D Langmack Prize Fund	40	2	578
1,885	Henry Laidlaw Trust	48	55	1,878
624	I Wallace Bequest	38	41	621
20,416	J A S Henderson Memorial Scholarship	2,786	58	23,144
2,753	J Purves Bequest	179	11	2,921
992	James Robertson Trust	62	3	1,051
84	James West Brown's Bequest	2	2	84
1,309	Jane Grieve Endowmwnt	78	5	1,382
1,719	Jean Kincaird Grieve Endowment	96	6	1,809
10,950	Jedburgh Coal Fund	457	40	11,367
1,505	Jedburgh Public Library Fund	36	6	1,535
1,538	John Herbetson Bequest	39	45	1,532
240	John Hunter's Bequest	6	7	239
631	John Jamieson Prize Fund	34	2	663
96	John Murray's Bequest	2	3	95

243,936	Sub-total carried to next page	10,847	1,820	252,963
344	Joshua Goodfellow's Bequest	8	1	351
612	Kelso Library Book Fund	15	2	625
592	Kennedy Medal Fund	36	2	626
1,647	Kenneth Cochrane Library Fund	39	6	1,680
26	Lands at Calfward	1	0	27
263	Longformacus Public Park	7	8	262
3,901	Marjoribanks Bequest	95	15	3,981
784	Mary Dickson Prize Fund	58	3	839
545	McKinley Trust	13	2	556
21,794	Miss A T Waldie Trust	744	139	22,399
801	Mr & Mrs W F Johnstone Fund	40	3	838
416	Mrs Adams Bequest	9	1	424
928	Mrs Clelland Memorial Prize	51	3	976
2,778	Mrs Hobkirk's Fund	67	11	2,834
176	Mrs M Cheetham Bequest	4	5	175
2,776	Murray Medal Fund	195	11	2,960
262	Peebles Public Library	7	8	261
21,673	Peeblesshire Educational Trust	2,231	1,239	22,665
25,146	R D Forman's Bequest	603	97	25,652
4,683	Raith's Mortification	114	18	4,779
1,253	Robert Meggit's Bequest	32	37	1,248
53,257	Robert Watson Fund	1,345	1,565	53,037
97,426	Roxburghshire Educational Trust	9,767	4,981	102,212
3,529	Selkirk Library Fund	85	14	3,600
11,400	Selkirkshire Educational Trust	1,227	132	12,495
24,463	Simpson Dalwhinny Fund	1,716	86	26,093
6,372	Sir John Robert's Bequest	152	25	6,499
19,271	Sir Walter Leitch Scholarship	2,786	59	21,998
1,179	Special Air Service Reg. Fund	86	5	1,260
12,073	T J S Roberts Trust	289	47	12,315
2,328	Thomas B Williamson Bequest	56	9	2,375
1,229	Walter Geddes Prize Fund	65	4	1,290
868	Waugh Bequest	22	(173)	1,063
24,445	William Forrester's Bequest	617	718	24,344
464	William Laidlaw Memorial Fund	12	13	463
302	Wm Brown's Bequest	8	9	301
593,942		33,449	10,925	616,466

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

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Charitable Trusts for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting policies and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the statement of 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other prescribed matter

I am required by the Accounts Commission to express an opinion on the following matter. In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Asif A Haseeb OBE Audit Scotland 102 West Port Edinburgh EH3 9DN

29 September 2017

Asif A Haseeb is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) 1973

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Charitable Trusts, please contact:

Kirsty Robb Telephone: 01835 –825249

Capital & Investment Manager E-mail: <u>krobb@scotborders.gov.uk</u>

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: Imirley@scotborders.gov.uk





annual report and financial statements

Bridge Homes LLP

For the year to 31 March 2017



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MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2017.

Reference and Administrative Information

Company Name Bridge Homes LLP

Company Registration Number SO304775

Registered Office Council HQ

Newtown St Boswells

Melrose

Scottish Borders

TD6 0SA

Designated Members

The members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

Scottish Future Trust Investments Ltd

The members who held office at the date of approval of this members report confirm that, so far as they are each aware, there is no relevant audit information of which Bridge Homes' auditor is unaware; and each member has taken all the steps they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that Bridge Homes' auditor is aware of that information.

Auditor KPMG LLP

319 St Vincent Street

Glasgow G2 5AS

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore remain in office.

Professional support

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

Principal Activity

The principal activity of Bridge Homes during the year was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders.

Policy with respect to members' drawings and subscription and repayments of amounts subscribed or otherwise contributed by members

- 1. Cash received by Bridge Homes, excluding property disposal proceeds, will be allocated firstly to pay any operating costs, secondly in payment of any accrued interest charges on loan advances, thirdly to reimburse any amounts paid out under the Scottish Government guarantee (see below) and fourthly to establish and maintain the required Reserve Account balance. Any residual balances after making the above payments will be held to apply in early repayment of loan advances. Such balances will not be distributed without the unanimous approval of members and where any payment under the Facility Agreement (between Bridge Homes and Scottish Borders Council) has not been made in accordance with its terms.
- 2. Cash received from property disposals will be allocated firstly to reimburse any amounts paid out under the Scottish Government guarantee, secondly to pay any operating costs relating to the property disposed, thirdly in payment of any accrued interest charges on loan advances, fourthly to establish and maintain the Reserve Account balance, fifthly to repay any loan principal, sixth to pay any residual disposal proceeds to Scottish Borders Council and finally, following disposal of the final property, to repay the initial capital.

Business Review

Background

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

Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

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

SFT monitors the projects as a result of the Scottish Government guarantee for the loans.

Governance

The Bridge Homes Board has been established with 2 Council Senior Officers and 1 SFT Senior Officer on the Board. The Board meets quarterly and the financial viability of projects require to be signed off by all 3 Directors.

A Project Board, supported through the Council, has been established and meets regularly to oversee the development and delivery of the initiative. A Project Team, consisting of officers from the Council, has also been established to identify properties, secure property management service providers, develop systems and deliver the project.

Activity Summary

During 2016/17, Bridge Homes acquired additional programmed properties at Croft Field Court, Denholm [8 x 2 bedroom houses], Henderson's Court, Kelso [8 x 2 bedroomed flats], and Waverley Road, Innerleithen [6 x 2 bedroomed flats]. This increased Bridge Homes' property portfolio up to 45 units. These are all now being managed by Orchard and Shipman on behalf of Bridge Homes.

The managing agent's performance is being monitored by Council Officers, and no issues have been identified.

Council Officers are currently negotiating the anticipated purchase of 4 flats in Peebles which are currently under construction. Subject to market conditions it is hoped that these will be purchased upon completion in late 2017/18.

Unfortunately, the Developer delivering the 7 unit project at Lilliesleaf has gone into liquidation, so it is now considered very unlikely that this project will complete as intended. Council Officers are dealing with the Administrator seeking to recover the deposit paid by Bridge Homes.

As a result of increasing labour and materials costs, fewer financially viable projects are being negotiated and agreed, and potential future pipeline unit numbers are decreasing sharply. Currently 2 sites are classed as being monitored which could potentially deliver 15 units, plus a further 3 sites capable of potentially 30 units are classed as being open. The initiative deadline for unit completions remains 31 March 2019 and Council Officers are now considering the likelihood of these 5 sites delivering additional completed units prior to this deadline.

This report was signed on behalf of the Members by

David Robertson CPFA
Designated Member
Scottish Borders Council
28 September 2017

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE MEMBERS' REPORT AND FINANCIAL STATEMENTS

The members are responsible for preparing the Members' report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial period. Under that law the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 1A, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2017

2015/16 £		2016/17 £	Notes
81,472 (17,205)	Turnover Cost of Sales	164,504 (41,045)	1 2
64,267 (34,451)	Gross Profit Administrative Expenses	123,459 (20,569)	3
29,816	Operating Profit	102,890	
(37,663)	Interest Payable & Similar Expenses	(82,146)	4
(7,847)	Profit/ (Loss) For The Financial Year Available For Discretionary Division Among Members	20,744	
0	Other Comprehensive Income Reversal of Previous Impairment on Property Revaluation Gain on Property	27,373 581,767	
(7,847)	Total Comprehensive Income	629,884	

The LLP's turnover and expenses all relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2017

2015/16 £		2016/17 £
(7,847)	Profit/(Loss) For The Financial Year	20,744
(7,847)	Total Recognised Gains/(Losses) For The Financial Year	20,744

BALANCE SHEET as at 31 March 2017

2015/2016		2016/2017		Notes
£		£	£	
	Fixed Assets			
2,667,388	Land and Buildings		5,863,810	5
	Current Assets			
99,589	Debtors	93,413		6
15,020	Cash at Bank	30,282		
114,609		123,695		
	Creditors			
(29,638)	Amounts falling due within 1 year	(17,980)		7
			_	
84,972	Net Current Assets		105,716	
	Net Assets attributable to			
2,752,360	Members		5,969,526	
	Represented By:			
2,343,320	Loans and Other Debts due to Members		4,600,602	8
	Members			
	Members' Other Interests			
429,002	Capital Account	759,002		
(19,962)	Profit and Loss Reserve	28,155		
(19,902)	Revaluation Reserve	581,767		
0	1.Cvaluation 1.eserve	301,707	1,368,924	
			1,500,524	
2,752,360	Total Members' Interests		5,969,526	

The Accounting Policies on pages 9 and 10 and the Notes on pages 11 to 13 form part of these Financial Statements.

These financial statements were approved by the members and authorised for issue on 28 June 2017 and are signed on their behalf by:

David Robertson CPFA
Designated Member
Scottish Borders Council
28 June 2017

Company Registered Number: SO304775

CASH FLOW for the year ended 31 March 2017

Restated 2015/16 £		2016/17 £
	Reconciliation of Profit/(Loss) to	
	Net Cash Flow from Operating Activities	
(7,847)	Profit/(Loss) for the Financial Year	20,744
59,043	Adjustments to Profit/Loss for Non Cash Movements/Non-Operating Activities: Interest paid	82,146
(92,006)	(Increase)/Decrease in Debtors	6,176
5,856	Increase/(Decrease) in Creditors due within 1 year	(11,658)
(34,954)	Net Cash Inflow/(Outflow) from Operating Activities	97,408

2015/16 £		2016/17 £
(34,954)	Cash Flow Statement Net Cash Inflow/(Outflow) from Operating Activities	97,408
	Investing Activities	
(1,398,989)	Purchase of Property, Plant and Equipment	(2,587,282)
(1,398,989)	Net Cash Outflow from Investing Activities	(2,587,282)
	Financing Activities	
125,600	Capital Received	330,000
1,356,940	Cash received from loans and other borrowing	2,257,282
(37,663)	Interest Payable	(82,146)
1,444,877	Net Cash Inflow from Financing Activities	2,505,136
10,934	Increase in Cash	15,262
10,934	Movement in Cash in Period	15,262

STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2017

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve £	Loans & Other Debts Due To/From Members	Total £
Balance at 1 April 2016	429,002	(19,962)	0	2,343,320	2,752,360
Profit/(Loss) For The Year Available for Discretionary Division Among Members		20,744			20,744
Loan Funding Provided By Members				2,257,282	2,257,282
Revaluations		27,373	581,767		609,140
Capital Introduced By Members	330,000				330,000
Balance at 31 March 2017	759,002	28,155	581,767	4,600,602	5,969,526

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve	Loans & Other Debts Due To/From Members £	Total £
Balance at 1 April 2015 Profit/(Loss) For The Year Available for Discretionary Division Among Members	303,402	(12,115) (7,847)	0	986,380	1,277,667 (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)	0	2,343,320	2,752,360

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 FRS 102 1A, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Statement of Recommended Practice: Accounting by Limited Liability Partnerships (effective 2017) 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.

Land and Buildings are 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. The fixed assets were revalued as at 31 March 2017 by Shepherd Chartered Surveyors, Independent Valuers.

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 2016/17 (SeRCOP).

NOTES TO THE FINANCIAL STATEMENTS

1 Turnover

2015/16 £		2016/17 £
72,540	Rental Income	155,093
8,932	Revenue Grant	9,411
81,472		164,504

2 Cost of Sales

2015/16 £		2016/17 £
15,650	Management Charges	40,619
1,427	Insurance	0
0	Landlord Registration	218
128	Utilities	208
17,205		41,045

3 Administrative Expenses

2015/16 £		2016/17 £
4,997	Accountancy and Legal	11,007
800	Professional Fees	0
21,380	Revaluations	0
3,935	Audit	5,130
3,030	Estates and Housing	4,015
309	Miscellaneous	418
34,451		20,569

4 <u>Interest Payable & Similar Charges</u>

2015/16		2016/17
£		£
42	Bank Charges	192
37,621	Interest Payable on loan from Local Authority	81,955
37,663		82,146

5 Land and Buildings

2015/16		2016/17
£		£
1,398,989	Additions at Cost	2,587,282
(21,380)	Revaluations	609,140
2,667,388	NBV at 31 March	5,863,810

6 Debtors

2015/16 £		2016/17 £
5,550	Unpaid Rental Income	0
0	Grant for Central Support Costs	9,411
94,039	Other Debtors	84,002
99,589		93,413

7 Creditors: Amounts Falling Due Within One Year

2015/16 £		2016/17 £
433	Management Charges	0
800	Professional Fees	0
3,000	Audit	4,500
0	Accountancy	2,349
0	Legal Fees	6,968
0	Miscellaneous	4,163
25,405	Interest Payable on loan from Local Authority	0
29,638		17,980

8 Loans & Other Debts Due To Members

Loan advances shall be repaid in full on the Final Repayment Date. Interest is payable on each Advance at a fixed rate per annum, based on the prevailing PWLB interest rate.

2015/16 £		2016/17 £	Cumulative Total £
1,356,940	Loan from Local Authority	2,257,282	4,600,602

9 Members' Capital

2015/16 £		2016/17 £
	Initial Capital - Scottish Borders Council	
	Initial Capital – Scottish Futures Trust Investments Ltd	
125,600	Capital Grant - Scottish Borders Council	330,000
125,600		330,000

10 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:

Debtor/ (Creditor) At 31 March 2016 (Restated)		Transaction	Debtor/ (Creditor) At 31 March 2017
£		£	£
(2,343,320)	Loan	2,257,282	(4,600,602)
-	Capital Funding	330,002	-
-	Revenue Grant		9,411
-	Service Charge		(9,411)
(25,405)	Loan Interest	81,995	-
		2,669,339	

11 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 2017 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK Generally Accepted Accounting Practice applicable to 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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit; 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

Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG
29th September 2017

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 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 financial statements in accordance with applicable law and Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK Generally Accepted Accounting Practice applicable to Smaller Entities).

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 for that period. 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 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.

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



Scottish Borders Supports LLP

Members' report and financial statements

Registered number SO305176

For the year ended 31 March 2017

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Members' report

The members present their annual report and audited financial statements for the year ended 31 March 2017.

Principal Activity

The principal activity of Scottish Borders Supports LLP (SB Supports) is the provision of Adult Social Care services.

These financial statements represent the results of the year from 1 April 2016 until 31 March 2017.

The partnership employs 10 staff (10 full time equivalents) in 10 positions.

Designated Members

SB Supports LLP had two members during the year, 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 were two additional persons on the Board of Management at the balance sheet date

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2016/17.

Members' report (continued)

Financial Results for the Year

In the year ended 31 March 2017, SB Supports LLP generated a loss of £310k. No profit distribution was made to members for the year. Net current liabilities were £20k and total net liabilities attributable to members were £20k. SB Supports LLP's financial statements have been prepared on a going concern basis.

Overall SB Supports performed as expected in its original Business Case for its second year of trading in being able to deliver a contribution to Scottish Borders Council of £1.127m.

Risk Management

SB Supports LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances whilst there is increasing demand for services continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client group. SB Supports continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively. This management of resources has ensured the company has never been required to use a bank overdraft facility.

SB Supports has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Supports Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Supports has developed its risk register to reflect risks and mitigations associated with the delivery of its 2017-2022 Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function, through a Service Level Agreement, carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management.

The partnership is subject to review and scrutiny by 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.

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 year. The members' share in the profit or loss for the year is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Supports LLP transacts with one of its members, Scottish Borders Council. These transactions are covered by Service Provision Agreements agreed on 1st April 2015.

Activity Summary

SB Cares supported 12,000 clients, families and carers in 2016/17 through the provision of its adult social cares services by:

- Delivering 821,000 visits to enable people to remain in their own homes
- Issuing 45,000 pieced of ability equipment to support people live more independently
- Supporting 3,200 clients maintain independence with 24 hour monitored personal alarms
- Providing 24 hour support to 190 clients in a care home environment with for those people with higher level needs
- Supporting 150 clients in our day services enabling people to remain at home and providing respite to families and carers

The Board of Management delivered a number of the objectives set out in the 2016/17 business plan during:

- Improving the quality of our services with 84% of services receiving Care Inspectorate grades of good or above
- establishing itself as provider of last resort stepping in on behalf of Scottish Borders Council to provide emergency support to vulnerable clients
- delivering efficient and effective services through new ways of working by sharing staff and expertise across services types
- create the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria launching our direct sales of personal alarms and ability equipment
- identifying and deliver recurring procurement savings through a new procurement strategy for the business working in partnership with our suppliers

SB Cares Board of Management has set out its Business Plan for 2017-2022 with the focus on delivering our three strategic aims with 6 key priorities.

Strategic Aims

- Quality have a team of staff who can deliver seamless, high quality care and support to every client
- **2.** Efficiency to develop our staff, resources and finances as efficiently and effectively as possible, ensuring best value
- **3.** Business growth to expand and grow the services we provided for the people of the Scottish Borders and generate income to invest in future care services

Our Priorities:

- 1. Invest in our staff
- 2. Make our services as efficient and effective as possible
- 3. Modernise our services through technology
- 4. Grow and develop our business
- 5. Build on key partnerships
- 6. Develop excellent governance

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be appointed and KPMG LLP will therefore be in office.

The financial statements were authorised for issue on 18 September 2017.

Approved by the members and signed on 18 September 2017 by

For and on behalf of Scottish Borders Supports LLP Designated member

Registered Office:-

SB Cares
Council HQ

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 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), including FRS 101 Reduced Disclosure Framework.

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 year ended 31 March 2017 set out on pages 10 to 19. 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 2017 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.

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 (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Date

Profit and Loss Account

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000 Restated
Turnover	2	17,538	17,521
Cost of sales		<u>(17,075)</u>	(16,722)
Gross profit		463	799
Administrative expenses		<u>(779)</u>	<u>(516)</u>
Operating (loss)/profit		(316)	283
Interest receivable and similar income	5	<u>6</u>	<u>7</u>
(Loss)/profit on ordinary activities before and after taxation		<u>(310)</u>	<u>290</u>
(Loss)/profit for the financial year available for discretionary division among members		<u>(310)</u>	<u>290</u>

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000 Restated
(Loss)/profit for the year available for discretionary division among members		(310)	290
Total comprehensive income for the year		<u>(310)</u>	<u>290</u>

The accompanying notes form integral part of these financial statements.

Balance Sheet

at 31 March 2017

	Note	2017 £000	2016 £000 Restated
Fixed assets	7	<u>678</u>	342
Current assets			
Stock	8	74	31
Debtors	9	221	782
Cash at bank and in hand		<u>2,946</u>	<u>1,408</u>
		3,241	2,221
Creditors: amounts falling due within one year	10	(3,939)	(2,273)
Net current (liabilities)		(698)	(52)
Total assets less current liabilities		<u>(20)</u>	<u>290</u>
Net (liabilities)/assets		<u>(20)</u>	<u>290</u>
Members' other interests			
Members' capital		-	-
Other reserves		<u>(20)</u>	<u>290</u>
Total other reserves		<u>(20)</u>	<u>290</u>

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the members on 18 September 2017 and were signed on its behalf by:

For and on behalf of Scottish Borders Supports LLP

Designated member

Company registered number: **SO305176**

Statement of Change in Net Assets Attributable to Partners

For the year ended 31 March 2017

	Members' Capital	Other Reserves	Total Other Reserves	Total Members' Interest
	£000	£000	£000	£000
Balance at 31 March 2015 as previously reported	-	-	-	-
Loss for the financial period	-	(25)	(25)	(25)
Balance at 31 March 2016 as previously reported	-	(25)	(25)	(25)
Restatement due to change of accounting policy (see note 1)	-	315	315	315
Balance at 31 March 2016 restated	-	<u>290</u>	<u>290</u>	<u>290</u>
Loss for the financial year	-	<u>(310)</u>	<u>(310)</u>	<u>(310))</u>
Balance at 31 March 2017	-	<u>(20)</u>	(20)	<u>(20)</u>

The accompanying notes form an integral part of the financial statements

Notes (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules.

The financial statements have been prepared in accordance with FRS101. In preparing these financial statements, the Company applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS101 disclosure exemptions have been taken.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- a cash flow statements and related notes;
- comparative period reconciliations of share capital;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of Key Management Personnel.

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in International Accounting Standard 1 'cash flow statements'("IAS1").

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in International Accounting Standard 24 'related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page **3**. The members have a reasonable expectation that despite there being a negative net worth at the end of the year the LLP has adequate resources to continue in operational existence for the foreseeable future with a service provision agreement in place for Adult Social Cares service from Scottish Borders Council, until 2020 Thus the members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

Value added tax

The LLP is registered for VAT purposes. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Fixed assets

Assets purchased in excess of the de minimis level of £1,000 or grouped £5,000 are included in the balance sheet as fixed assets. Depreciation is applied in the period from 1 April in the financial year following their acquisition.

Depreciation is charged on a straight line basis and the useful life of an asset is deemed to be:

I.T. Systems 3 years

Plant and Equipment 5 years

Rehabilitation Equipment 5-10 years

Assets disposed of, or taken out of use will be fully written off in period of disposal or removal from use.

Restatement - Fixed Assets

The accounts have been restated to incorporate the effect of a change in accounting policy with regard to rehabilitation equipment. This equipment is held for distribution to clients for use to maintain independence in their own homes.

This expenditure was previously expensed through the profit and loss account. The Board of Management have reviewed the policy and have agreed that it is more appropriate to capitalise some of this expenditure in the balance sheet and apply depreciation over the estimated economic useful life of the asset. This provides a more accurate reflection of the resources deployed by SB Supports LLP in supplying its services.

Summary of the prior year accounting impact: Balance sheet

	As previously stated £000	Adjustment £000	Restated £000
Fixed assets Current assets Creditors	27 2,221 (2,273)	315 - -	342 2,221 (2,273)
Net assets/(liabilities)	(25)	315	290
Represented by: Members' capital Other reserves	- (25)	- 315	- 290

Summary of the prior year accounting impact: Profit & Loss account

	As previously stated £000	Adjustment £000	Restated £000
Turnover	17,521	-	17,521
Cost of sales	(17,037)	315	(16,722)
Other expenses	(509)	-	(509)
Operating profit	(25)	315	290

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.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest model, less any impairment losses.

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

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")

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 year, analysed by category, was as follows:

Number of employees (FTE)

	2017 £000	2016 £000
Administration	<u>11</u>	<u>10</u>
Staff costs for the above persons w	rere:	
Wages and salaries	419	331
Social security costs	43	30
Pension costs	<u>56</u>	<u>44</u>
	<u>518</u>	<u>405</u>

4 Expenses and auditors' remuneration

Included in the (loss)/profit for the year are the following

	2017	2016
	£000	£000
Audit of these financial statements	<u>22</u>	<u>15</u>

5 Other interest receivable and similar income

	2017	2016
	£000	£000
Other interest receivable	<u>6</u>	<u>7</u>

6 Particulars of members

The number of members of the Limited Liability Partnership for the year was two. No remuneration was paid to either member.

7 Fixed assets

	IT Systems £000	Plant & Equipment £000	Rehabilitation equipment £000	Total £000
At 31 March 2016 as previously stated	15	12	-	27
Recognition of assets due to change in accounting policy (see note 1)	-	-	315	315
At 31 March 2016 as restated	<u>15</u>	<u>12</u>	<u>315</u>	<u>342</u>
Additions	-	57	313	370
At 31 March 2017	<u>15</u>	<u>69</u>	<u>628</u>	<u>712</u>
Depreciation At 31 March 2016	-	-	-	-
Charge for the year	4	3	27	34
At 31 March 2017	<u>4</u>	<u>3</u>	<u>27</u>	<u>34</u>
Net book value At 31 March 2016	<u>15</u>	<u>12</u>	<u>315</u>	<u>342</u>
At 31 March 2017	<u>11</u>	<u>66</u>	<u>601</u>	<u>678</u>
8 Stock				

	2017	2016
	£000	£000
Raw materials and consumables	<u>74</u>	<u>31</u>

9 Debtors

	2017	2016
	£000	£000
Trade debtors	21	39
Amounts owed by group undertakings	55	576
Prepayments and accrued income	<u>145</u>	<u>167</u>
	<u>221</u>	<u>782</u>

10 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	18	38
Amounts owed to group undertakings	366	415
Other creditors	706	541
Value added tax	507	839
Accruals and deferred income	<u>2,342</u>	<u>440</u>
	<u>3,939</u>	<u>2,273</u>

11 Financial instruments

The financial instruments held are trade receivables, cash and cash equivalents, trade creditors and other creditors. All are held at amortised cost which, given their short term nature is estimated to equate to fair value.

The partnership's exposure to credit risk is considered to be minimal given its principal trade debtor is Scottish Borders Council. Similarly given the nature of its business it is considered to have limited liquidity risk.

12 Post Balance Sheet Events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

13 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.



Scottish Borders Cares LLP

Members' report and financial statements

Registered number SO305156

For the year ended 31 March 2017

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Members' report

The members present their annual report and audited financial statements for the year ended 31 March 2017.

Principal Activity

The principal activity of Scottish Borders Cares LLP (SB Cares) is the provision of Adult Social Care services.

These financial statements represent the results of the year of trading from 1 April 2016 until 31 March 2017.

The partnership employs **830** staff (**501** full time equivalents) in **198** positions with a number of staff having more than one role.

Designated Members

SB Cares LLP had two members during the year, Scottish Borders Council and SBC Nominees Limited, both of whom are designated members.

Business Review

Business Structure

The Board of Management is subject to the provision of the Members Agreement and neither the LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in the agreement.

The Board of Management is employed by Scottish Borders Supports LLP and consists of:

- a) The Managing Director
- b) The Finance and Commercial Director
- c) The Operations Director
- d) The Chair

In addition up to five additional persons can be assumed to the Board of Management, where the persons have skills, knowledge or experience deemed to be useful to the Board of Management in fulfilling its obligations and functions to the LLP and its members. There are currently two additional persons on the Board of Management.

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2016/17.

Financial Results for the Year

In the year ended 31 March 2017, SB Cares LLP generated a loss of £2.676m. This result includes the adjustments required in respect of **International Accounting Standards 19 (IAS 19)** 'retirement benefits' totalling £2.627m. The IAS 19 adjustment is met through a transfer between the pension reserve and other reserves within the Reconciliation of Movement on Members' Funds.

The underlying, pre-IAS 19 results of SB Cares LLP generated a loss of £50k for the year after accounting for a movement in the annual leave accrual of £50k.

Overall SB Cares performed as expected for the year of trading delivering services through its contract with Scottish Borders Supports LLP.

SB Cares LLP's financial statements have been prepared on a going concern basis.

Risk Management

SB Cares LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client grouping. SB Cares continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively.

SB Cares has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Cares Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Cares has developed its risk register to reflect risks and mitigations associated with the delivery of its 2017-2022 Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function, through a Service Level Agreement, carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management.

The partnership is subject to review and scrutiny by the Council's LLP Strategic Governance Group.

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 Staff are regularly briefed on developments relevant to their work
- Staff Roadshows information sharing sessions with frontline staff.
- Staff Supervision-face to face management and appraisal sessions with individual staff.

Transactions with Members

No remuneration of members occurred during the year. The members' share in the profit or loss for the year is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Cares LLP transacts with SB Supports LLP not with Members.

These transactions are covered by a five year Service Provision Agreements between SB Cares LLP and SB Supports which commenced on 1st April 2015.

Activity Summary

SB Cares supported 12,000 clients, families and carers in 2016/17 through the provision of its adult social cares services by:

- Delivering 821,000 visits to enable people to remain in their own homes
- Issuing 45,000 pieces of ability equipment to support people to live more independently
- Supporting 3,200 clients to maintain independence with 24 hour monitored personal alarms
- Providing 24 hour support to 190 clients in a care home environment for those people with higher level needs
- Supporting 150 clients through our day services enabling people to remain at home and providing respite to families and carers

The Board of Management delivery a number of the objectives set out in the 2016/17 business plan:

- Improved the quality of our services with 84% of services receiving Care Inspectorate grades of good or above
- established its self as provider of last resort stepping in on behalf of Scottish Borders
 Council to provide emergency support to vulnerable clients

- delivered efficient and effective services through new ways of working by sharing staff and expertise across services types
- created the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria launching our direct sales of personal alarms and ability equipment
- identified and delivered recurring procurement savings through a new procurement strategy for the business working in partnership with our suppliers

SB Cares Board of Management has set out its Business Plan for 2017-2022 with the focus on delivering our three strategic aims with 6 key priorities.

Strategic Aims

- Quality have a team of staff who can deliver seamless, high quality care and support to every client
- **2.** Efficiency to develop our staff, resources and finances as efficiently and effectively as possible, ensuring best value
- **3.** Business growth to expand and grow the services we provided for the people of the Scottish Borders and generate income to invest in future care services

Our Priorities:

- 1. Invest in our staff
- 2. Make our services as efficient and effective as possible
- 3. Modernise our services through technology
- 4. Grow and develop our business
- 5. Build on key partnerships
- 6. Develop excellent governance

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The financial statements were authorised for issue on 18 September 2017.

Approved by the members and signed on 18 September 2017 by

Scottish Borders Cares LLP Members' report and financial statements For the year ended 31 March 2017

For and on behalf of Scottish Borders Council Designated member

Registered Office: Council HQNewtown 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), including FRS 101 *Reduced Disclosure Framework*.

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Scottish Borders Cares LLP

We have audited the financial statements of Scottish Borders Cares LLP for the year ended 31 March 2017 set out on pages 11 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 8 the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied
 to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit)
 (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report to the members of Scottish Borders Cares LLP (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

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

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Date

Profit and Loss Account

For the year ended 31 March 2017

	Note	2017 £000	2016 £000 Restated
Turnover	2	14,920	14,547
Cost of sales	2	(16,000)	(16,012)
Gross loss		(1,080)	(1,465)
Administrative expenses		<u>-</u>	<u>(32)</u>
Loss on ordinary activities before and after taxation		<u>(1,080)</u>	<u>(1,497)</u>
Loss for the financial year available for discretionary		<u>(1,080)</u>	<u>(1,497)</u>
division among members			

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the year ended 31 March 2017

	Note	2017	2016
		£000	£000
			Restated
Loss for the year available for discretionary division		(1,080)	(1,497)
among members			
Actuarial (Loss)/Gain	7	<u>(1,596)</u>	<u>203</u>
Total comprehensive loss for the year		<u>(2,676)</u>	<u>(1,294)</u>

The accompanying notes form an integral part of the financial statements.

Balance Sheet

at 31 March 2017

Current assets	Note	2017 £000	2016 £000
Current assets			
Debtors	5	429	372
Cash at bank and in hand		4	3
Net current assets		<u>433</u>	<u>375</u>
Creditors: amounts falling due within one year	6	<u>(779)</u>	<u>(672)</u>
Net current liabilities		(346)	(297)
Provisions for liabilities – Pension and similar obligations	7	<u>(3,624</u>)	<u>(997)</u>
Net liabilities		<u>(3,970)</u>	<u>(1,294)</u>
Members' other interests			
Members' capital		-	-
Pension reserve		(3,624)	(997)
Other reserves		<u>(346)</u>	(297)
Total other reserves		<u>(3,970)</u>	<u>(1,294)</u>

The accompanying notes form integral part of the financial statements.

These financial statements were approved by the members on 18 September 2017 and were signed on its behalf by:

For and on behalf of Scottish Borders Council

Designated member

Company registered number: **SO305156**

Statement of Changes in Net Assets Attributable to Partners

For the year ended 31 March 2017

	Members Capital	Pension Reserves	Other reserves	Total other reserves	Total Members Interest
	£000	£000	£000	£000	£000
Balance at 15 Dec 2015	-	-	-	-	-
Movement in the period	-	203	(1,497)	(1,294)	(1,294)
Transfers to/from the		(1,200)	<u>1,200</u>	<u>-</u>	<u>=</u>
pension reserve					
Balance as 31 March 2016	-	<u>(997)</u>	<u>(297)</u>	<u>(1,294)</u>	<u>(1,294)</u>
Balance at 1 April 2016	-	(997)	(297)	(1,294)	(1,294)
Movement in the year	-	(1,596)	(1,080)	(2,676)	(2,676)
Transfers to/from the		<u>(1,031)</u>	<u>1,031</u>	<u>=</u>	<u>=</u>
pension reserve					
Balance as 31 March 2017	-	<u>(3,624)</u>	<u>(346)</u>	<u>(3,970)</u>	<u>(3,970)</u>

The accompanying notes form an integral part of the financial statements

Notes (forming part of the financial statements)

1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules.

The financial statements have been prepared in accordance with FRS101. In preparing these financial statements, the Company applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS101 disclosure exemptions have been taken.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- a cash flow statements and related notes;
- comparative period reconciliations of share capital;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of Key Management Personnel.

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in **International Accounting Standard 24 'related parties' ("IAS24")** and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page **3**. The members have a reasonable expectation that despite there being a significant negative net worth at the end of the year the LLP has adequate resources to continue in operational existence for the foreseeable future with a service provision agreement in place with Scottish Borders Supports LLP until March 2020 and a guarantee for SB Cares pension liability by Scottish Borders Council. Thus Members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

1 Accounting policies (continued)

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.

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.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest model, less any impairment losses.

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

1 Accounting policies (continued)

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.

Restatement-Retirement Benefits

It has been necessary to revise the presentation of accounting entries in respect of retirement benefits made in the year ended 31st March 2016.

In that year only the value of employer's contributions to the pension scheme was recognised in the Profit and Loss account. This has now been revised to recognise the full service cost in the Profit and Loss account. The effect in the year ended 31st March 2016 is to increase staff costs by £1.2 million.

The revised presentation has also been followed in the current year.

Summary of the prior year accounting impact:

Profit & Loss account

	As previously stated £000	Adjustment £000	Restated £000
Turnover	14,547	-	14,547
Cost of sales	(14,812)	(1,200)	(16,012)
Other expenses	(32)	-	(32)
Operating profit	(297)	(1,200)	(1,497)
Other Comprehensive Income			
Loss for the period available for discretionary division amo	ng		
members	(297)	(1,200)	(1,497)
Actuarial Gain	203	-	203
Expenses recognised in the profit and loss account	(1,200)	1,200	
Total comprehensive loss for the period	(1,294)	-	(1,294)

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 year, analysed by category, was as follows:

Number of employees (FTE)

	2017 £000	2016 £000 Restated
Front Line Services	501	479
Staff costs for the above persons were		
Wages and salaries	11,828	11,705
Social security costs	777	652
Pension costs	<u>2,790</u>	<u>2,859</u>
	<u>15,395</u>	<u>15,216</u>

4 Particulars of members

The number of members of the Limited Liability Partnership for the year was two. No remuneration was paid to either member.

5 Debtors

	2017	2016
	£000	£000
Trade debtors	2	3
Amounts owed by group undertakings	376	337
Prepayments and accrued income	3	6
Value added tax	22	-
Other debtors	<u>26</u>	<u>26</u>
	<u>429</u>	<u>372</u>

6 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Other creditors	3	-
Other taxation and social security	344	347
Accruals and deferred income	<u>432</u>	<u>325</u>
	<u>779</u>	<u>672</u>

7 Employee benefits

The information disclosed below is in respect of the LLP's share of assets and liabilities within the Scottish Borders Council Pension Fund, in which it is a participating employer. The latest full actuarial valuation was carried out as at 31 March 2014.

The Scottish Borders Council Pension Fund is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

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.

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

7 Employee benefits (continued)

-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.

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 2017.

Curtailments

The cost of curtailments arising as a result of the payment of unreduced pensions on early retirement have been calculated at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, one former employee became entitled to unreduced early retirement benefits. The capitalised cost of the additional benefits on FRS101 compliant assumptions is calculated at £58,000. This figure has been included within service cost in the statement of profit and 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.

7 Employee benefits (continued)

	2017 £000	2016 £000
Present value of funded defined benefit obligations	(8,864)	(3,184)
Fair value of plan assets	5,240	2,187
Net liability	(3,624)	<u>(997)</u>

Movements in present value of defined benefit obligation

	2017	2016
	£000	£000
At 31 st March 2016	3,184	-
Current service cost	2,784	2,830
Past service costs	-	58
Interest cost	132	9
Actuarial losses/(gains)	2,169	(229)
Contributions by members	545	503
Estimated benefits paid net of		
transfers in	<u>50</u>	<u>13</u>
At 31 st March 2017	<u>8,864</u>	<u>3,184</u>

Movements in fair value of plan assets were as follows:

	2017	2016
	£000	£000
At 31 st March 2016	2,187	-
Expected return on plan assets	699	12
Contributions by employer	1,759	1,659
Contributions by members	545	503
Estimated benefits paid plus		
unfunded net of transfers in	<u>50</u>	<u>13</u>
At 31 st March 2017	<u>5,240</u>	<u>2,187</u>

Notes (continued)

7 Employee benefits (continued)

Expenses recognised in the profit and loss account

	2017 £000	2016 £000 Restated
Current service cost	2,784	2,830
Past service cost/(gain)	0	58
Interest on defined benefit	5	(29)
pension plan obligation		
Administration expenses	1	-
At 31 March	<u>2,790</u>	<u>2,859</u>

Re-measurements in other comprehensive income

	2017	2016
	£000	£000
		Restated
Return on Fund assets in excess		
of interest	573	(26)
Change in financial assumptions	(2,169)	229
At 31 March	<u>(1,596)</u>	<u>203</u>

The fair value of the plan assets and the return on those assets were as follows:

	2017	2016
	£000	£000
Equities	3,648	1,439
Corporate bonds	428	195
Real Estate	269	135
Other	<u>895</u>	<u>418</u>
	<u>5,240</u>	<u>2,187</u>

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2017 %	2016 %
Discount rate	2.8	3.8
Future salary increases	3.7	4.3
Pension increase rate	2.7	2.5
RPI	3.6	3.4
CPI	2.7	2.5

In valuing the liabilities of the pension fund at 31 March 2017, mortality assumptions have been made as indicated below.

Notes (continued)

7 Employee benefits (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Salary increases are expected to be 1% p.a. until 31 March 2016 and 1.8% p.a. thereafter
- Current pensioner aged 65: 22.8 years (male), 23.7 years (female)
- Future retiree upon reaching 65: 25 years (male), 26 years (female)

The LLP expects to contribute approximately £1,622k to its defined benefit plan in the next financial period.

Sensitivity Analysis

Adjustment to discount rate	+0.1%	. 0.0%	-0.1%
Present value of total obligation	8,657	8,864	9,076
Projected service cost	3,768	3,858	3,950
Adjustment to long term salary increase	+0.1%	0.0%	0.1%
Present value of total obligation	8,865	8,864	8,863
Projected service cost	3,860	3,858	3,856
Adjustment to pension increases and deferred reevaluation	+0.01%	0.0%	-0.1%
Present value of total obligation	9,075	8,864	8,657
Projected service cost	3,948	3,858	3,770
Adjustment to life expectancy assumptions	+1 year	None	-1 Year
Present value of total obligation	9,148	8,864	8,589
Projected service cost	3,981	3,858	3,739

Notes (continued)

8 Financial instruments

The financial instruments held are trade receivables, cash and cash equivalents, trade creditors and other creditors. All are held at amortised cost which, given their short term nature is estimated to equate to fair value.

The partnership's exposure to credit risk is considered to be minimal given its principal trade debtor is Scottish Borders Council. Similarly given the nature of its business it is considered to have limited liquidity risk.

9 Contingent Liabilities

There has been a European Court of Justice ruling relating to the payment of mobile workers. The financial implications of this judgement for Scottish Borders Cares LLP are unclear at present and therefore, in agreement with our external auditors, a contingent liability has been included in this years` annual accounts.

10 Post balance sheet events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

11 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 OSA.



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T: 0131 625 1500 E: info@audit-scotland.gov.uk www.audit-scotland.gov.uk



Audit and Scrutiny Committee Scottish Borders Council Newtown St. Boswells, TD6 0SA 25th September 2017

Dear Audit and Scrutiny Committee Members,

Scottish Borders Council Pension Fund 2016/17 Annual Audit Report

- International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our proposed annual report on the 2016/17 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
- 2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report by 29 September 2017 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
- 3. In presenting this report to the Audit & Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
- 4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
- 5. As part of the completion of our audit we seek written assurances from management on aspects of the financial statements and judgements and estimates made. A letter of representation template under ISA580 is attached at <u>Appendix B</u>. This should be signed and returned by the Chief Financial Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Yours faithfully,

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Pension Fund for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the fund during the year ended 31 March 2017 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by

the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the financial statements

The Chief Financial Officer is responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA Audit Scotland 102 West Port Edinburgh EH3 9DN

29th September 2017

Appendix B: ISA 580 - Letter of Representation

Gillian Woolman Assistant Director Audit Scotland 4th Floor West Port Edinburgh EH3 9DN

28 September 2017

Dear Gillian

Scottish Borders Council Pension Fund

Financial Statements 2016/17

- 1. This representation letter is provided in connection with your audit of the financial statements of the Scottish Borders Council Pension Fund for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities.
- I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Scottish Borders Council Pension Fund for the year ended 31 March 2017.

General

- 3. I acknowledge my responsibility and that of the Scottish Borders Council Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
- 4. The information given in the Annual Report to the financial statements, including Management Commentary, presents a balanced picture of the Scottish Borders Council Pension Fund and is consistent with the financial statements.
- I am not aware of any uncorrected misstatements.

Financial Reporting Framework

- 6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
- 7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Scottish Borders Council Pension Fund for the year ended 31 March 2017.

Accounting Policies & Estimates

- 8. All material accounting policies adopted are as shown in the Summary of Significant Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- 9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Contributions - Pension Strain

10. All contributions due to the fund have been properly identified and accounted for. In particular the 'strain on the fund' costs have been properly recharged to relevant services and bodies.

Going Concern

11. I have assessed Scottish Borders Council Pension Fund's ability to carry on as a going concern and have concluded that it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Related Party Transactions

12. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Events Subsequent to the date of the Net Assets Statements

- 13. There have been no material events since the date of the Net Assets Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
- 14. Since the date of the Net Assets Statements no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

- 15. I acknowledge, as the officer with responsibility for the proper administration of the fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
- 16. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2017, which require disclosure.

Fraud

17. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

Investments

18. For the year ended 31 March 2017, the amounts included in the net assets statement reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the fund. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2017. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements

Banking and Cash Flow Arrangements

19. The pension fund maintains a separate bank account and while these accounts form part of Scottish Borders Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

20. On realisation in the ordinary course of the Fund's business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

21. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Actuarial Assumptions

22. The pension assumptions made by the actuary in the IAS19 report as at 31 March 2017 and the 2014 triennial valuations have been reviewed and I confirm that they are consistent with management's own view.

Liabilities

23. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

24. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

25. There are no provisions included in the financial statements of the Scottish Borders Council Pension Fund for 2016/17.

Commitments

26. There are no significant commitments or obligations including financial guarantees and offers of financial support which might adversely affect the fund.

Other Matters

- 27. Except as disclosed in the financial statements, the results for the period were not materially affected by:
 - (i) transactions of a sort not usually undertaken by Scottish Borders Council Pension Fund;
 - (ii) circumstances of an exceptional or non-recurrent nature;
 - (iii) charges or credits relating to prior periods; and
 - (iv) any change in the basis of accounting.

Yours sincerely

David Robertson CPFA

Chief Financial Officer, Scottish Borders Council

Scottish Borders Council Pension Fund 2016/17 Annual Audit Report

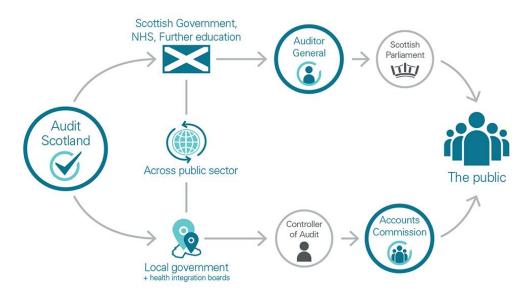


To Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the
Controller of Audit
25 September 2017

Who we are

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

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



About us

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

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

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

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Key messages

2016/17 annual report and financial statements

1 We have issued unqualified opinions on the financial statements, management commentary, annual governance statement and governance compliance statement.

Financial management

2 The Fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.

Financial sustainability

The continued increase in pensioners in the Fund's membership will make future funding of pension payments increasingly challenging. Cash flow projections show that the Fund will continue to rely on investment income to pay pensions for the foreseeable future. Therefore management has revised the Investment Strategy. This has resulted in a move away from growth generating assets such as equities to income generating assets. This has enabled the more immediate needs of the Fund to be met.

Governance and transparency

- 4 The Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Fund Committee.
- Decisions are transparent with committee papers and minutes of meetings of the Pension Fund Committee available on the Scottish Borders Council website.

Value for money

- The Fund's performance is subject to regular review and scrutiny by the Pension Fund Committee. The Fund reviews the value for money that it receives from its investment managers on an on-going basis. Adequate arrangements are in place through monitoring of investment performance and participation in fee and performance benchmarking surveys.
- 7 Individual investment manager performance is reported on a quarterly basis to the Pension Fund Committee. In addition all investment managers are subject to review by the Investment & Performance Sub-Committee. This is consistent with good practice.

- **1.** This report is a summary of our findings arising from the 2016/17 audit of Scottish Borders Pension Fund ('the Fund' or 'the Pension Fund').
- **2.** The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Scottish Borders Council Audit and Risk Committee. This report comprises:
 - an audit of the annual report and financial statements
 - consideration of the wider dimensions set out in the Code of Audit Practice (2016) as illustrated in Exhibit 1.

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

- 3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the Fund's main financial systems and governance arrangements
 - an audit of the Fund's 2016/17 annual report and financial statements including the issue of an independent auditor's report setting out our opinions.
- **4.** Scottish Borders Council ('the Council') is the administering authority for the Pension Fund. The Council is responsible for establishing effective governance and financial arrangements. The Council delegates this responsibility to the Pension Fund Committee. Additionally, the Pension Fund Committee is required to

review the effectiveness of internal control arrangements and approve the annual report and financial statements.

- **5.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the *Code of Audit Practice (2016)*, and supporting guidance, and are guided by the auditing profession's ethical guidance.
- **6.** As public sector auditors we provide independent opinions on the annual report and financial statements. We also review and report on the arrangements within the Fund to manage its performance and use of resources such as money and assets. In doing this, we aim to support improvement and accountability.
- **7.** Further details of the respective responsibilities of management and the auditor can be found in the <u>Code of Audit Practice (2016)</u>,
- **8.** This report raises matters from the audit of the annual report and financial statements, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- **9.** Our annual audit report contains an action plan at <u>Appendix 1 (page 21)</u>. It sets out specific recommendations, responsible officers and dates for implementation.
- **10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- **11.** This report is addressed to both the members of the Scottish Borders Council as administering authority of the Fund, and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- **12.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and financial statements



Main judgements

Our audit opinions are all unqualified. These cover the financial statements, the management commentary, the annual governance statement and governance compliance statement.

Unqualified audit opinions

- 13. The annual report and financial statements for the year ended 31 March 2017 were reviewed by the Scottish Borders Council Audit & Scrutiny Committee on 25 September 2017 and approved by the Council on 28 September 2017. We reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements;
 - unqualified audit opinions on the management commentary, annual governance statement and governance compliance statement.
- 14. Additionally, we have nothing to report in respect of those matters which we are required to report by exception.

Submission of annual accounts for audit

- 15. We received the unaudited annual report and financial statements on 22 June 2017, in line with our agreed audit timetable.
- **16.** Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. We feel that the introduction of Business World, a new accounting system, will provide an opportunity to improve procedures in preparing the financial statements and associated working papers.

Risks of material misstatement

17. Appendix 2 (page 22) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and our conclusions thereon.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. The assessment of what The annual report and financial statements are the principal means of accounting for the stewardship of resources and the performance in the use of those resources.

is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

- **19.** Our initial assessment of materiality for the annual report and financial statements was undertaken during the planning phase of the audit, based on the value of Benefits paid and Transfers out at 31 March 2016. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
- **20.** On receipt of the 2016/17 unaudited annual report and financial statements and prior to completion of audit testing we reviewed our original materiality calculations and concluded that our original calculations remained appropriate. Materiality used throughout the audit is detailed in Exhibit 2.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 10% of Benefits paid & Transfers Out for the year ended 31 March 2016, this has remained unchanged.	£2.15 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£1.29 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of overall materiality.	£85,000

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. The only misstatement identified related to an overstated debtor and creditor with the Council of £168k. This was adjusted by finance officers.

Significant findings

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit. These are summarised below in Exhibit 3 on page 9. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Significant findings from the audit of financial statements

Issue	Resolution
1. Adjusted Error	
Debtors and Creditors due from/to Scottish Borders Council were overstated by £168k. This error is due to the respective creditor not being netted off against the debtor in the accounts.	This error has been adjusted by netting the balances off. This may have been avoided by timely and complete working papers.
2. Completeness of Disclosures	
We identified a number of fair value disclosures relating to investment balances that were incomplete.	The disclosures have been added as appropriate to the final version of the annual report and financial statements.
	The CIPFA Disclosure Checklist should be used to ensure completeness of disclosures, as suggested in Action Plan in Appendix 1, point 3

Other Findings

23. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

The fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.

Financial performance in 2016/17

24. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three year period and takes account of the strength of employer covenants and the Fund's investment strategy.

25. The Fund's performance in 2016/17 is summarised in Exhibit 4

Exhibit 4

Assets, liabilities, funding level and investment performance

Increase in net assets per custodian



Increase in estimated actuarial liabilities



Funding level



Investment performance



£112 million

(+20.1%)

£210 million

(+30.1%)

2014 Triennial funding valuation

101%

21.5%

Return on investments 2016/17

£654 million

Closing net assets

£907 million
Closing liabilities

2017 Triennial funding valuation due December 2017

10.9%

Return on investments over 3 years

Source: Scottish Borders Council Pension Fund 2016/17 Financial Statements

- **26.** The net assets of the Fund increased to £654 million at 31 March 2017 from £542 million at 31 March 2016. This significant increase of £112 million (20%) reflects the investment policy in place at the Pension Fund as well as the rise in the overall investment market over 2016/17 as illustrated in Exhibit 6 on Page 12.
- **27.** During 2016/17, benefits paid out totalled £20 million. This was in excess of contributions paid into the Fund which totalled £18.4 million. 2016/17 is the fourth year that benefits have exceeded contributions, requiring the Fund to rely on income from investments to make up the difference.
- **28.** At the March 2014 Triennial Funding Valuation the Fund was assessed by the actuary, Barnett Waddingham, to be 101% funded, meaning the investment assets were larger than the liabilities.
- **29.** 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 employer contribution rates and the Fund does not take account of liabilities to pay pensions and other benefits in the future.
- **30.** The actuarial present value of promised retirement benefits estimates the Fund's liabilities rising from £697 million at 31 March 2016 to £907 million at 31 March 2017 (£210 million increase).
- **31.** It should be recognised that not all funds have liabilities assessed on the same prudential scales. The use of differing actuarial firms and assumptions creates difficulties in direct comparisons. It should be noted that this valuation is an accounting estimate.
- **32.** The 2017 triennial valuation due at the end of 2017 will provide a more accurate funding position.
- **33.** Fund Officers are beginning to use Cashflow Modelling to understand the maturing position of the Fund allowing them to tailor the investment strategy to meet demands as they arise.

Financial management arrangements

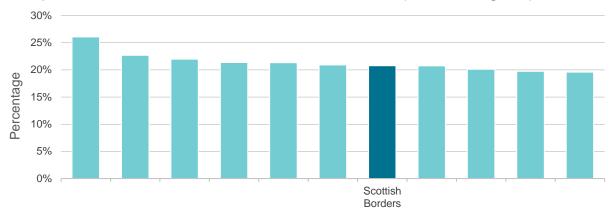
- **34.** The Chief Financial Officer for Scottish Borders Council is responsible for the preparation of the annual report and financial statements of the Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Pension Fund. We consider these to be comprehensive, and current, and promote good financial management.
- **35.** Investment and administration performance reports are submitted to the Pension Fund Committee on a quarterly basis. Reports are comprehensive, detailing the performance of investments and providing insights into the state of the economy and potential impacts on the Fund's investments. Also, through our attendance at the Pension Fund Committee we have observed a good level of review and scrutiny by members.
- **36.** Based on evidence reviewed to date, being the financial regulations of the Council, investment updates to Committee and investment decisions made, our view is that the financial management arrangements in place at Scottish Borders Council Pension Fund are sufficient to ensure the ongoing success of the Fund.

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

Financial outcomes

37. 2016/17 has been a strong year for investment performance for most Local Government Pension Scheme (LGPS) pension funds across Scotland as illustrated in Exhibit 5.

Exhibit 5
LGPS pension funds – Net return on investment 2016/17 (unaudited figures)

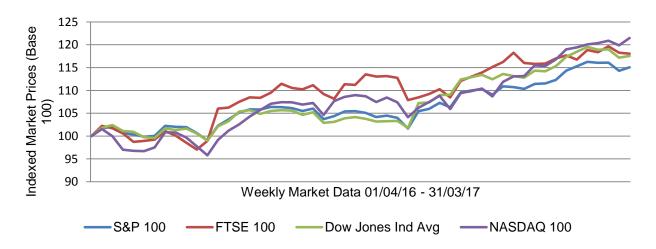


Source: 2016/17 LGPS pension fund unaudited financial statements

38. Most funds achieved their benchmarks in 2016/17 and Scottish Borders Council Pension Fund achieved a return of 21.8% on its investments. This is above the Fund benchmark of 20.9% for 2016/17. The three year Fund return is 10.9%, compared to the benchmark of 10%.

39. The Fund's investment performance has been positive in 2016/17 as a result of strong but volatile investment markets as <u>Exhibit 6</u> demonstrates. The average increase in value of the selected indices was 18%.

Exhibit 6
Indexed market prices 16/17



Source: Investing.com

Internal controls

- **40.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. The primary systems for the Fund are maintained and controlled by the administering authority, Scottish Borders Council. Our objective is to gain assurance that Scottish Borders Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- **41.** Our findings were included in an interim audit report presented to the Audit & Scrutiny Committee on 28 June 2017. We concluded that the majority of controls were operating effectively with the exception of bank reconciliations. These had not been prepared for a number of months year due to staffing pressures arising from staff absence and implementing a new accounting system. Refer to <u>Action Plan in Appendix 1</u>, Point 1.

Fraud prevention and detection

- **42.** We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's (Scottish Borders Council) arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, a whistleblowing policy and an anti-fraud strategy.
- **43.** We concluded through planning work and controls testing that appropriate arrangements were in place for preventing and detecting fraud and corruption in 2016/17.

Part 3

Financial sustainability



Main judgement

The continued increase in pensioners in the Fund's membership will make funding future pension payments increasingly reliant on returns from invested assets.

Funding position

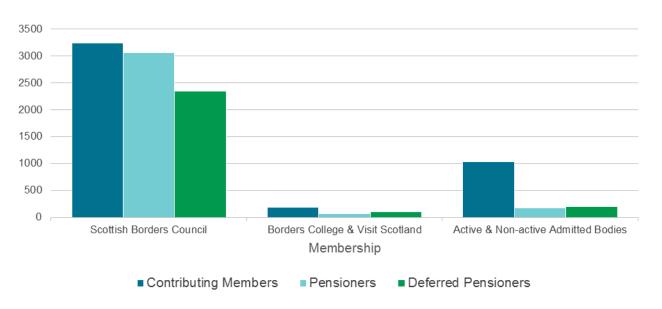
- **44.** The March 2014 triennial valuation reported that the Fund assets were sufficient to meet 101% of its liabilities. The March 2017 triennial valuation is due for publication around December 2017.
- **45.** The Fund has started to analyse its cashflows to help inform investment and disinvestment decisions to ensure cashflow needs are met.
- **46.** Contribution rates will be considered by the Actuary at the next triennial funding valuation date of 31 March 2017, scheduled for publication around December 2017. Following this, officers will review and update the Funding Strategy Statement.
- **47.** We have concluded that despite forecast cash flows being negative in the medium to long term, management has taken this into account and revised the Investment Strategy. This has resulted in a move away from growth generating assets such as equities to income generating assets. The actuary determines that investment assets should deliver 5.5% per annum to ensure the Fund is fully funded for the current contribution rates set.
- **48.** The upcoming Triennial Valuation will determine whether contributions require to be adjusted to ensure the ongoing viability of the Fund.

Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Membership levels

49. The Pension Fund is a multi-employer fund, including the Council and 11 other employers. The current membership profile is shown at <u>Exhibit 7</u>. There are still more active members than pensioners.

Exhibit 7Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2016/17 financial statements

- **50.** Total membership of the Fund increased by 173 to 10,432 members at 31 March 2017, however active members decreased from 4,594 as at 31 March 2016 to 4,466 (128, or 2.8%).
- **51.** The Fund gives its members a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each member's life. It is important that the fund maintains the capacity to meet the current and future needs of its members through attracting new, contributing members and ensuring investment assets match the liability of pensions due in the future.

Contributions

- **52.** Following the last triennial valuation in 2014, the Actuary agreed employer contribution rates with individual employers for the period 2015 to 2018.
- **53.** The Fund reported net withdrawals of £2.2 million in 2016/17. This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid. The Fund's cash flow projections show that the Fund will continue to rely on investment income to pay pensions. The continued increase in pensioners in the Fund's membership will make funding pension payments increasingly challenging.

Part 4

Governance and transparency



Main judgements

The fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Fund Committee.

Governance arrangements

- **54.** Scottish Borders Council is the administering body of the Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Pension Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Pension Fund. It is also responsible for ensuring that decisions are made within the terms of the LGPS.
- **55.** We found effective scrutiny and challenge of policy and investment decisions, good quality information being made available to committee members by officers and evidence that committee and board members receive appropriate and sufficient training in order to carry out their roles.

Other aspects of governance

- **56.** We reviewed various other aspects of governance that apply to the Fund including standing orders and arrangements for reporting breaches of regulation to the Pensions Regulator.
- **57.** Overall, we concluded that there are open and transparent arrangements in place.

Pensions Regulator Public Service Code

58. Scottish Borders Council Pension Fund members were consulted as part of a national review of LGPS governance commissioned by the Scottish Public Pensions Authority (SPPA). The final report has not yet been received by Scottish Borders Council Pension Fund. However we have been advised that no material issues were identified. Additionally no breaches by the Fund were reported to the Regulator in 2016/17. We are aware that a breach will be reported in 2017/18 as a result of the Pension Fund not meeting the deadline for issuing benefit statements.

Internal audit

- **59.** Internal audit provides the Fund with independent assurance on the Administering Authority's overall risk management, internal control and corporate governance processes.
- 60. The internal audit function is carried out by Scottish Borders Council Internal Audit Service. We carried out a review of the adequate at the internal audit

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.

function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

61. We noted that the Fund's annual governance statement refers to the work performed by internal audit during the year. However the 2016/17 internal audit annual report makes no specific reference to the assurances provided for the Pension Fund. Refer to Action Plan in Appendix 1, Point 2.

Transparency

- **62.** Transparency means that the public, in particular members, have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using resources.
- **63.** There is evidence from a number of sources which demonstrate the Fund's commitment to transparency. For example, the Fund's annual report and financial statements are available on the Scottish Borders Council website, as well as the Funding Strategy and Statement of Investment Principles. This information provides stakeholders with sufficient information to scrutinise the effectiveness and management of the Pension Fund.
- **64.** Meetings of the Pension Fund Committee and Pensions Board are held in public with the minutes made publicly available on the Council's website. Appropriate sections of the meetings are held in private, largely being discussion around investment strategy.
- **65.** Overall, we concluded that the Fund conducts its business in an open and transparent manner.

Part 5

Value for money



Main judgements

The Fund's performance is subject to regular review and scrutiny by the Pension Fund Committee with appropriate input from their Independent Investment Consultant.

The Fund reviews the value for money that it receives from its investments on an ongoing basis. Adequate arrangements are in place through monitoring of investment performance and participation in fee and performance benchmarking surveys.

Investment performance

66. The Pension Fund Performance and Investment Sub-Committee meets biannually. Presentations by, and review of fund managers' performance is a standing item on the committee's agenda. At each meeting, committee members receive a report outlining overall Fund performance including an analysis of risks and returns as prepared by the Independent Investment Consultant, KPMG.

67. Exhibit 8 shows that the Fund outperformed its benchmark in 2016/17 and for the 5 year period to 31 March 2017. As shown earlier in Exhibit 5 net investment performance was comparable to other LGPS Funds in Scotland.

Exhibit 8Fund investment performance



Source: KPMG - 2017 Quarter 1 Investment Performance Report

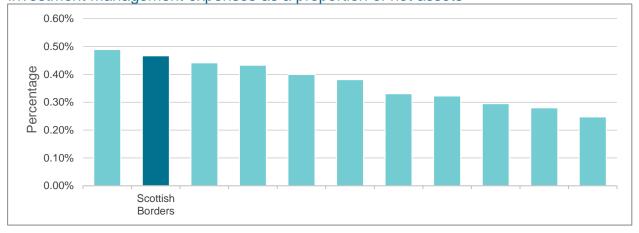
- **68.** Fund manager and investment performance is reported to the quarterly Pension Fund Committee meetings. With advice from the Independent Investment Consultant, the Committee are ultimately responsible for the investment strategy and the cost of implementing that strategy.
- **69.** Investment return and risk are inextricably linked and it is not possible for us to comment on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. However, what we can say is that the asset allocation is largely in line with the Fund's investment strategy. The introduction of a new Independent Investment Consultant has seen a change to the investment mix in the strategy, largely reducing investments in equities and moving towards lending and longer-term investments in order to improve certainty and reduce the risk of exposure to inflation in Fund liabilities.

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

Management expenses

- **70.** There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the council and the governance fees for actuarial and audit services.
- **71.** CIPFA published revised guidance on local government pension scheme management expenses. This guidance sets out a framework for the reporting of investment management costs and was applied from 2016/17.
- **72.** External investment manager fees are agreed in the respective mandates governing their appointments. Generally these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes throughout the year.
- **73.** Investment management expenses have increased from £2.75 million in 2015/16 to £3.1 million in 2016/17.
- **74.** Exhibit 9 shows figures for investment management expenses relative to net assets across the Scottish Pension Funds, with investment management expenses for Scottish Borders Council Pension Fund highlighted. The Fund had the second highest percentage in Scotland; and is the third smallest pension fund. Variances in investment strategies and administrative structures (e.g. in-house staff vs. outsourced services) will impact on the amount of external investment management expertise procured. Also, a comparison of investment management expenses may not reflect the risk profile or returns of the individual funds.

Exhibit 9
Investment management expenses as a proportion of net assets



Source: 2016/17 unaudited local government pension fund financial statements

75. We concluded that the Fund has adequate arrangements in place for monitoring investment performance. However focus should be given to reducing investment management expenses where possible to ensure value for money.

Administrative expenses

- **76.** The workload of the pension administration section continues to grow, primarily due to the introduction of the career average pension scheme (CARE) from 1 April 2015. Other factors impacting on the administration workload include auto enrolment, the issuing of benefits statements and the Guaranteed Minimum Payment reconciliation. Pension Fund officers have identified opportunities to outsource resource intensive tasks such as the Guaranteed Minimum Payment reconciliation through the use of a procurement framework.
- **77.** The Fund's business plan sets out a range of service standards against which administration performance is monitored. These are measured on a regular basis and are reported to the Pensions Fund Committee quarterly.
- **78.** Employers are required to submit year end contribution returns to the Fund by May for the preceding 31 March year end. This is an important control over the accuracy of pension contributions received and recorded in the pensions systems and is of increased importance following the introduction of CARE as the member benefit statement requires actual salary data from all employers. All year end contribution returns relating to 2016/17 have been received.

National performance audit reports

79. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Fund. These are outlined in Appendix 3 (page 24) accompanying this report.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Issue/risk



Recommendation



Agreed management action/timing

1. Financial & HR Capacity

We found that staff capacity was showing signs of pressure. There is dependency on key staff in Finance and in HR. Staff absence has meant key reconciliations and working papers were not available or prepared to a level suitable for audit.

Resource requirement of the Pension Fund should be assessed and addressed to ensure administration of the Fund is efficient and effective. An assessment of pension fund resources will be undertaken following the audit to ensure the council retains sufficient capacity and expertise to continue to support the pension effectively. This in house expertise will be augmented by the cost effective use of external resources to provide specialist services where required.

Chief Financial Officer and Service Director Human Resources

31 December 2017

2. Governance

Our review of the Annual Governance Statement of the Fund found that Internal Audit perform an assessment of Governance and Controls in place over the Pension Fund. However, the Internal Audit Annual Report makes no specific reference to the assurance provided for the Pension Fund.

The Internal Audit Annual Report should include a specific reference to Scottish Borders Council Pension Fund, as their work over the systems and controls in place at Scottish Borders Council covers the same systems for the Pension Fund, and the Pension Fund Governance statement refers to Internal Audit assurance over their controls and systems.

The SBC Internal Audit Annual Report is the internal audit assurance report for the Council. A separate Internal Audit assurance report will be prepared for and presented to the Pension Fund from 2017/18.

Chief Officer Audit and Risk

31 March 2018

3. Financial Statement Disclosures

Our review of the unaudited annual report and financial statements identified disclosures that were incomplete. These include disclosures relating to debtors, creditors and investment fair values. Including these will improve transparency and understanding of the financial statements.

CIPFA disclosure checklist and example accounts guidance should be used to ensure disclosures are complete. Noted, a review of the disclosures recommended by the CIPFA checklist will be undertaken and these will be included in the 2017/18 pension fund accounts where they are considered to add value and enhance transparency.

Chief Financial Officer 31 March 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and financial statements and those relating to our wider responsibility under the <u>Code of Audit Practice 2016</u>.

Au	dit risk	Assurance procedure	Results and conclusions		
Ris	Risks of material misstatement in the financial statements				
1	Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Substantive procedures over reviewing journals, estimates and accrued income provided assurance that there was no occurrence of management override of key controls.		
2	Risk of fraud over expenditure Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA 240 requirements to aspects of expenditure such as pension payments and investments.	Regular budget monitoring and reporting Robust internal controls in financial systems to mitigate risk of error or manipulation	Audit procedures over income, spend and investment assets were performed. No instances of fraud were identified.		
3	Estimation and judgements There is a significant degree of subjectivity in the measurement of investment assets for a pension fund by investment managers. This subjectivity represents an increased risk of misstatement in the financial statements.	Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.	An assessment was made over the competence and capability of Actuary and Custodian to provide sound estimates and valuations. No issues identified.		
4	Disclosure Requirements New disclosure requirements require the application of International Financial Reporting Standard (IFRS) 13 for pension fund investment	Officers preparing the accounts keep their knowledge of the Code up to date.	Review of the financial statements against the Disclosure Checklist and example accounts guidance from CIPFA provided assurance or identified issues over disclosures		

Au	dit risk	Assurance procedure	Results and conclusions
	assets, as well as changes to the way management expenses are disclosed per the 2016/17 Code of Practice in local authority accounting in the United Kingdom ("the Code"). These changes introduce the risk that the financial statements are not prepared in accordance with financial reporting standards.		made. Refer to Action Plan in Appendix 1, Point 3.
Ris	sks identified from the auditor	's wider responsibility unde	r the Code of Audit Practice
5	Financial sustainability	Management review and	Our review of minutes of
s r F	There is a risk to financial sustainability as a result of the pension fund maturing and the number of pension benefits paid out being greater than the contributions paid in.	revise the funding strategy every 3 years based on actuary's triennial valuation. Funds are managed to ensure that deficits are minimised.	committee meetings, discussions with officers and review of investment consultant reports concluded that the negative cashflow position is being managed effectively.
	Additionally, should scheduled or admitted bodies to the fund cease whilst their share of assets are in deficit, the remaining bodies have to make up the shortfall.		Due to low numbers of 'exiting employers', being smaller bodies with no active members, the Fund has historically subsumed any liability. We will continue to monitor this throughout our audit appointment.
6	Change in Custodian	Custodian procured to ensure	An assessment was made over
	During the year there was a change in Custodian. This introduces the risk that investment assets are not	experienced and secure management of investment assets.	the competence and capability of the custodian, Northern Trust, as well as the procurement arrangements.
	properly managed and secured.		No issues identified.
7	Budgetary control	Budget setting will be	A budget for management
	The Fund does not prepare an annual budget; there is a risk of lack of transparency and scrutiny available over the costs that can be controlled by the pension fund such as administration and investment costs.	assessed to determine the value of scrutiny.	expenses has been prepared for 2017/18. This will provide Members with useful information to scrutinise the cost and efficiency of the Fund.

Appendix 3

Summary of national performance reports 2016/17



Apr	
May	Common Agricultural Policy Futures programme: an update
Jun	South Ayrshire Council: Best Value audit report The National Fraud Initiative in Scotland
Jul	Audit of higher education in Scottish universities Supporting Scotland's economic growth
Aug	Maintaining Scotland's roads: a follow-up report roads: a progress update Superfast broadband for Scotland: a progress update Scotland's colleges 2016
Sept	Social work in Scotland Scotland's new financial powers
Oct	Angus Council: Best Value audit report NHS in Scotland 2016
Nov	How councils work – Roles and working relationships in councils Local government in Scotland: Financial overview 2015/16
Dec	Falkirk Council: Best Value audit report East Dunbartonshire Council: Best Value audit report
Jan	
Feb	Scotland's NHS workforce
Mar	Local government in Scotland: Performance and challenges 2017 i6: a review powers: an update

Pension fund relevant reports

<u>Local Government in Scotland Financial Overview 2015/16 – LGPS Supplement – November 2016.</u>

Scottish Borders Council Pension Fund

2016/17 Annual Audit Report

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Scottish Borders Council Pension Fund

annual report and financial statements

for the year to 31 March 2017



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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2017. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2016/17.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. The recent local elections has resulted in change of Membership for the Committee going forward but due to the hard work and dedication of the out-going Members the fund is in a strong position.

The Joint meetings of the Committee and Board continued during 2016/17 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers twice during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

Following the strong market recovery and strong performance from key fund managers over the last couple of years, 2016 has proved to be challenging but successful time. The level of volatility across markets, especially global equities has continued to be

unprecedented. Despite this the fund has managed to increase in value by £112m during the year.

The overall performance of the Fund was 21.5% for 2016/17, outperforming the benchmark by 1.0%.

Procurement Activity

Following the completion of the Strategic Asset Allocation review 3 new managers were successfully appointed to the Fund. The Fund has also entered an agreement to work along with Lothian Pension Fund to access the Infrastructure market.

Cashflow Modelling

Work has continued during 2016 modelling the Funds cashflow position. This work will continue into 2017 as the Fund continues to mature and the balance between contributions and expenditure continues to widen.

Pensions Administration

During the year the Pensions Administration Team successfully issued all of the Annual Benefit statements to Employees, by the required deadline, and incorporating the new CARE scheme.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, KPMG and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.

David Poockon

Chairman, Pension Fund Committee Scottish Borders Council

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2016/17 Key Highlights

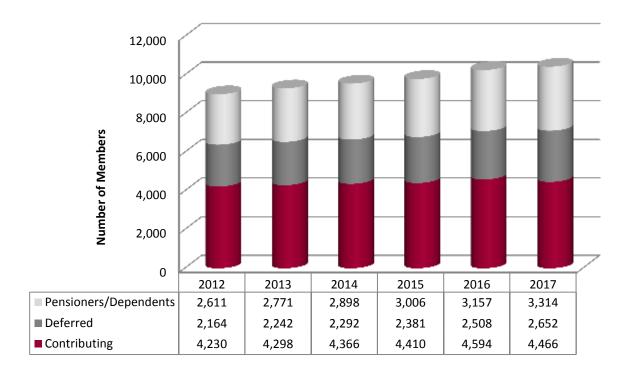
- £654m Net Assets, an increase of £112m on 2015/16
- Strong performance return of 21.5% for 2016/17 and 10.9% for the rolling 3 year period
- Continued sound governance of the Fund and good engagement of Members in the training programme
- 10,432 Members, an increase of 173 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,432 of which 4,466 are actively contributing and 3,314 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2012 the total membership has increased by 1,427 members (a 16% increase overall). During this period the number of pensioners and their dependants has increased by 25%, and the number of active contributing members has increased by 6%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was included as part of the considerations when undertaking the full investment review.

A full reconciliation of the movement in membership during 2016/17 is included in Note 25 to the Accounts, page 49.

Financial Performance

The Financial Statements for the Fund are set out from page 26.

Key Figures from these are set out below:

	Restated 2015/16 £'000	2016/17 £'000
Net (Withdrawals) from Dealings with Members	(1,971)	(2,229)
Net Return on Investments	2,018	118,278
Net Increase/(decrease) in the Fund during the Year	(3,225)	112,493
Closing Net Assets of the Scheme	541,900	654,393

These highlight two key messages in relation to the Financial Position of the Fund:

- Strong financial returns from Fund Managers have resulted in an increase of £112m in Net Assets
- > A Net Withdrawal position in relation to dealing with Fund Members

The strong asset position, along with the 2014 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

Recent changes in the legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawal from the fund as a result of this legislation but is continuing to monitor this position.

Governance and Decision Making

Following the significant changes required in the governance arrangements which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held regularly during 2016/17.

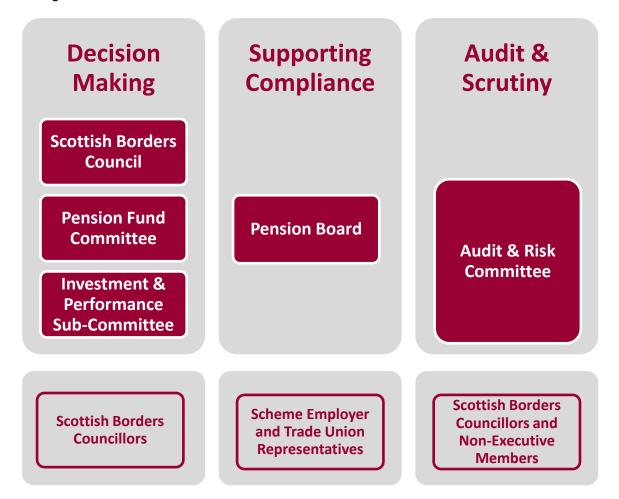
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it:
- securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2017 can be found on pages 17 to 23.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 16 June 2016 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2016/17 training programme was developed. It was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- > Financial Markets and Investment Products
- > Role of Custodian
- General Pension Fund regulatory environment
- > LGPS regulatory environment

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2016/17 performance is set out below.

Pension Fund Committee	Number of Members Attending		
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	2	2	
75% (3 sessions)	3	3	
50% (2 sessions)	1	1	
≤ 25% (1 or no sessions)	1	1	

Pension Fund Board	Number of Members Attending		
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	1	3	
75% (3 sessions)	4	5	
50% (2 sessions)	2	-	
≤ 25% (1 or no sessions)	1	-	

The Policy also requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. All Members of the Pension Fund Board fully met the training targets set in the Training Policy and 87.5% met the attendance target. 85.7% of the Pension Fund Committee met the training and attendance target.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

Fund's Aims and Objectives

Primary Aim of the Fund

 To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Funding Objectives

- Set levels of employer contribution that will **build up a fund of assets that** will **be sufficient to meet all future benefit payments** from the Fund.
- Build up the required assets in such a way that ensure levels of employer contribution that are stable

Pensions Administration

Deliver a High Quality Pension Service to Members.

Governance

• Ensure that Scottish Borders Pension Fund is managed effectively, transparently and remains compliant.

The Fund approved a Business Plan for the period covering 2016/17 – 2018/19 on 16 June 2016 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2016/17.

- Full review of Investment Strategy based on asset and liability modelling completed
- Strategic Asset Allocation review completed and new fund managers appointed
- Custodian procurement complete and services transferred successfully to Northern Trust
- 2015/16 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 22 June 2017 sets out the Fund's Investment Strategy and a copy of this document can www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy is summarised below:

Primary Investment Aim

produce stable

contribution

Build up assets to levels of employer

By Seeking to maintain a positive ratio of assets to liabilities for the Fund

To Produce a Long **Term Investment** Return in line with **Triennial Valuation Assumptions**

Investment Strategic **Benchmark**

Return of at least 2.7% above CPI inflation

The following table indicates the actual position at 31 March 2017 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/16 %	Asset Allocation at 31/3/17 %	Strategic Benchmark %
UK Equity	18.8	18.2	14.0
Global Equity	46.8	49.8	33.5
Bonds	10.8	9.7	15.0
Alternatives	17.0	16.9	22.5
Property	6.1	5.1	15.0
Cash	0.5	0.3	0.0
Total	100.0	100.0	100.0

As can be seen from the table on the above there has not been any major changes in the position of the allocation of assets between 2015/16 and 2016/17. The Fund has taken a deliberate decision to run underweight in the Bonds allocation due to the current market conditions. A revised asset allocation was agreed in December 2016 with greater focus on index linked assets including long leased property, with some initial reallocation of fund taking place before 31 March and it is anticipated the required transfers will be implemented during 2017/18 due to the nature of the new investment areas.

The strategic benchmark represents the asset allocation split as approved in December 2016 and contained with the 2017 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2016/17 in Numbers

 Strong 3 year annualised investment performance of 10.9%, 0.9% above benchmark

• **Strong 1 year performance** to March 2017 with investment returns of 21.5% in the year to a benchmark of 19.5%

Key Successes 2016/17

Investment Markets

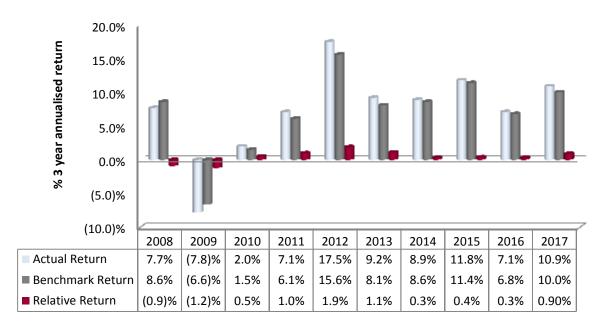
During 2016/1716 there was an unprecedented level of volatility across a number of markets due largely to global political events. Over the 1 year rolling period a positive return was experienced in Equities both UK and Global. The 3 year rolling period is still positive compared to its benchmark, although lower due to the lower than benchmark returns during 2015/16. The factors affecting the markets were:

- Election of new US administration with promise of fiscal stimulus led to strong "risk on" environment as global equities rallied from 2015/16 levels.
- Uncertainty around BREXIT resulted in an element of volatility during the year but following the outcome markets have remained positive..
- Corporate bonds performed positively amidst a backdrop of improving global economic growth.

Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive, and that over the 10 year period there has only been one year of negative returns overall for the Fund and that was during the financial crisis.

3 Year Annualised Returns ending 31 March



Including the impact of the passive currency hedge, the overall fund return over 3 years was 10.9% p.a. versus the benchmark of 10.0% p.a., and the Fund return over 1 year was 21.5% p.a. compared to a benchmark of 19.5% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 11.9% p.a. versus the benchmark of 11.3% p.a. and the fund return over 1 year was 22.9% p.a. versus the benchmark of 20.9% p.a.

The Fund achieved these favourable returns in 2016/17 despite the volatile period in the markets during the year. The fluctuations in currency and the resulting currency hedge payments pulled the overall performance of the fund down by 1.4% during the year and 1% over the 3 year period. The currency hedge was fully removed from the fund in December 2016.

Each quarter the Investment Consultants, KPMG, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager twice during the year giving members an opportunity to gain a deeper understanding of the investments, the decision making process and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

Return on Investment as at	1 year rolling return		3 year rolli	ng return
31/3/2017	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund including Currency Hedging	21.5	19.5	10.9	10.0
Total Fund excluding Currency Hedging	22.9	20.9	11.9	11.3
Global Equities including UK	31.0	29.6	16.6	15.4
UK Equities	22.0	22.0	7.9	7.7
UK Government Bonds	6.6	6.6	11.6	10.5
UK Corporate Bonds	11.8	9.2	7.8	7.4
Pooled Bonds	6.9	3.3	n/a	n/a
Property	1.9	3.7	10.0	10.2
Alternatives	7.5	4.5	5.4	4.5
Cash				

Key:

The performance of the Fund overall has exceeded the rolling 1 year and 3 year benchmark. The rolling 1 year performance was aided by strong performance from Harris Associates in global equities, off-setting an under performance from Morgan Stanley in global equities and UBS Property portfolios.

Top 20 Direct Equity Holdings at 31 March 2017

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	6.8	Glencore	3.4
Amazon	6.7	Allianz SE	3.3
Royal Caribbean Cruises	5.2	Richemont	3.3
Naspers	4.6	CNH Industrial	3.3
Taiwan Semicon.SPN.ADR.1:5	4.2	Anthem Inc	3.2
SAP	4.0	Credit Suisse	3.2
Moodys Corp	3.9	Daimler	3.1
ADR Baidu	3.5	CRH PLC	3.0
Alphabet Inc	3.5	AIA Group	2.9
BNP Paribas	3.4	Samsung Electronic	2.8

¹ **Bench**: Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

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 2011 £m £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			
Funding Level	96% 96% 10°			

Note 26 to the Statement of Accounts on page 47, contains details of the outcome and assumptions used in the 2014 Valuation and the impact that it had on employer contribution rates.

This is the first valuation that has taken into account the move to an LGPS based on career average earnings rather than final salary which came into effect on 1 April 2015.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

Valuation for Statutory Accounts at 31 March 2017

Note 27 to the Statement of Accounts on page 48, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £254.2m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund. The full version of the actuary report and the current Funding Strategy is available via the Councils website: www.scotborders.gov.uk/pensions

MANAGEMENT COMMENTARY

Pensions Administration Update

2016/17 in Numbers

- 18 Scheme Employers
- £21.7m of Pension and Other Benefits paid during year
- £19.4m of Contributions Received from 4,466 Active Members and their Employers
- 6,515 Benefits Statements issued
- All Annual Benefit Statements issued by deadline, incorporating the new CARE benefits
- Testing of Business World for processing Pension payments achieved in advance of 1st April 2017 implementation
- Successful admission of additional Bodies to the Fund

Key Successes 2016/17

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2016/17 and covered the requirements for the year end returns, requirements for the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the new Pension Board.

MEMBERSHIP

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they come within other national pension schemes.

There are 18 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

Membership Details as at 31 March 2017	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	3,246	3,067	2,344	8,657
Borders College	182	66	96	344
Visit Scotland (Scottish Borders)	1	6	9	16
	3,429	3,139	2,449	9,017
Active Admitted Bodies:				
Scottish Borders Housing Association	100	84	67	251
LIVE Borders	209	16	29	254
SBCares	673	43	89	805
Jedburgh Leisure Facilities Trust	2		2	4
L&B Community Justice Authority	2	1	5	8
Amey Community Limited	6	5	3	14
CGI	45			45
	1,037	149	195	1,381
Admitted Bodies with No Active Con	tributing Meml	bers:		
Gala Youth Project		1	1	2
Scottish Borders Careers		1	3	4
Others		24	4	28
	0	26	8	34
Total	4,466	3,314	2,652	10,432

Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2016/17 – 2018/19. The development of a Communication Policy and associated action plan is included as an action for delivery within the next three year period. This will include exploiting the use of the web to engage with members via self-service interaction with the new pension administration system and improved information being available on the website.

Trade Unions as member representatives have also shown good engagement through their attendance at the Pension Fund Committee and also by securing 4 representatives for the Pension Board and identifying several substitutes.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2015. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2016/17 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 22 June 2017 and a copy of the report is available via the Council's committee papers website http://scottishborders.moderngov.co.uk/.

Administering Authority Performance Measures

Many of the performance standards have been met in 2016/17 and are comparable with the positive performance in the previous year. During 2015/16 the target performance days for responding to general queries was reduced from 10 to 5 days and 100% of queries were replied to within this new target.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2016/17 % on Target
Estimates – Transfer In	80	20 Days	21.25%
Estimates – Transfer Out	59	20 Days	25.42%
Estimate – All Other	875	10 Days	90.40%
Total Estimates	1,014		

Service Standard – Query Response Turnaround

	2015/16		2015/16 2016/17		6/17
Standard	Volume of Queries	% on Target	Volume of Queries	% on Target	
Query responses – within 5 working days	1,075	100%	972	100%	
Benefit Statement queries – within 20 working days	55	100%	78	46%	
Total	1,130		1,050		

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	Yes
Benefit Statements	by end of August	Yes

There was a reduction in performance with meeting the 20 day target for responding to the Annual Benefit Statement queries, however, this was as a result of the growing complexity of queries with them now covering up to three sets of scheme benefits.

The main area that continues to be behind target is in relation to Transfers. However, all Scottish Pension Funds will have suffered delays with the transfer process this year, due to legislative changes (change to CARE scheme, "discount rate" announced in the budget), and the resultant change in methodology to calculate transfer values. The issue of GAD (Government Actuaries Department) guidance and translation into pension administration software has delayed the turnaround of transfer requests.

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	530	90%	100%
Changes notified – within 20 working days	571	90%	100%
Retirement info – at least 20 working days before	206	90%	100%
Early leaver notification – within 20 working days	544	90%	100%
Death in service notification – within 10 working days	3	90%	100%

Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Employer Body	Number of Mon	Number of Monthly Payments Received			
Employer Body	By Target Date (19 th of Month)	Late	% On Time		
Scottish Borders Council	12	-	100%		
Visit Scotland	12	-	100%		
Borders College	12	-	100%		
Scottish Borders Housing Association	12	-	100%		
Jedburgh Leisure Facilities Trust	10	2	83%		
LIVE Borders	6	6	50%		
AMEY Community Limited	12	-	100%		
SBCares	12	-	100%		
CGI	6	-	100%		

During 2016/17 there was an increase in the number of payments being received late when compared to 2015/16. Due to the repeat nature of late payments made by Live Borders they were written to and reminded of their responsibility to make payment on time. The payments dates continue to be monitored on a monthly basis.

Councillor David Parker Chairman Pension Fund Committee Tracey Logan
Chief Executive
Scottish Borders Council

David Robertson
Chief Financial Officer
Scottish Borders Council

GOVERNANCE

Annual Governance Statement 2016/17

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2015) which is available on the website www.scotborders.gov.uk/pensions.

The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2016/17 2018/19 to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

- i) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

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

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2016/17, Annex 1 (pages 19 - 23).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work of internal audit, and by the external auditors' reports.

The review cycle for the risk register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

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

Improvement Areas of Governance

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.
- b) Continue to monitor the implications of new national policy on freedom of choice of pension sums.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Compliance Statement, Annex 1 (pages 19-23).

Councillor David Parker Chairman Pension Fund Committee 28 September 2017 Tracey Logan Chief Executive Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2016/17

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

Pri	nciple	Full Compliance	Comments
Str	ucture		
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee	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).
	established by the appointing council.		The Committee comprises of 7 elected members.
			The Council's Scheme of Administration sets out the Committee's remit.
В	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	rticipating LGPS ployers, admitted bodies d scheme members cluding pensioner and ferred members) are embers of either the main or condary committee ablished to underpin the	The Pensions Board (the Board) formalises 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 is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.
			The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.
			The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee has its remit set out in the Scheme of Administration. The Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.

Pri	nciple	Full	Comments
С	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.
Со	mmittee Membership and Re	epresentation	
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 adhoc 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.
В	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. The Scheme of Administration for the Committee and Board Constitution provides for the joint meetings with equal rights to receive papers and access meetings in the same way.

Pri	nciple	Full Compliance	Comments
Sel	ection and role of lay memb	<u> </u>	
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.
В	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.
Vo	ting		
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.
Tra	ining/Facility time/Expenses	5	
Α	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.
В	Where such a policy exists, it applies equally to all members of committees, subcommittees, 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.

		Earl	
Pri	nciple	Full Compliance	Comments
С	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.
Me	etings (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.
В	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.
С	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.
Ac	cess		
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.

Pri	rinciple Full Commen		Comments
Sco	ope		
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.
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Minutes and Public papers available via Council website, as are various governance and scheme policy documents.

GOVERNANCE

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2016 and subsequent reviews have followed the Council's cycle, as shown below:

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		
riion Galogory	Red	Amber	Green	Red	Amber	Green
Asset & Investment	3	6	-	-	7	2
Employer	-	4	-	-	3	1
Resource & Skill	-	5	-	-	3	2
Liquidity	2	4	-	1	4	1
Administrative	-	8	-	-	3	5
Regulatory & Compliance	1	3	-	1	1	2
Reputation	1	4	-	-	2	3
Total Number of Risks	7	34	-	2	23	16

The two risks that remain at red assessment i.e. high risk as at 31 March 2017 are:

- Change in the composition of the Pension Fund Membership between active/ deferred/ pensioners
- Legislation Changes impacting on the Fund

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders
 Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for
 the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

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

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2017, and of its income and expenditure for the year ended 31 March 2017.

Councillor David Parker Chairman Pension Fund Committee David Robertson (CPFA)
Chief Financial Officer
Scottish Borders Council

28 September 2017

STATEMENT OF ACCOUNTS 2016/17 FUND ACCOUNT

Restated 2015/16 £'000		2016/17 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
18,642	Contributions	18,373	8
411	Transfers in from other pension funds	1,074	9
19,053		19,447	
(20,357)	Benefits	(19,986)	10,11
(667)	Payments To And On Account Of Leavers	(1,690)	12
(21,024)		(21,676)	
(1,971)	Net Additions/(Withdrawals) from Dealings with Members	(2,229)	
(3,272)	Management expenses	(3,555)	13
	Return on Investments:		
6,451	Investment Income	8,292	14
(4,282)	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	110,098	15
(151)	Taxes on Income	(113)	
2,018	Net Return on Investments	118,277	
(3,225)	Net Increase/(Decrease) in the Fund during the Year	112,493	
545,125	Opening Net Assets of the Scheme	541,900	
541,900	Closing Net Assets of the Scheme	654,393	

NET ASSETS STATEMENT as at 31 March 2017

Restated 2016 £'000		2017 £'000	Notes
	Investment Assets		_
203,952	Equities	257,512	
	Managed Funds:		
32,546	Property	32,169	
82,947	Global Equities	105,284	
62,415	UK Equities- Passive	74,744	
18,643	Bonds	20,379	17
39,913	Diversified Fixed Income	42,814	
92,526	Alternatives	110,322	
1,674	Open Ended Investment Contracts	1,825	
1,447	Derivatives – Forward Foreign Exchange	-	
5,715	Cash Deposits	8,158	
541,778	Total Investment Assets	653,207	
926	Other Investment Balances	1,355	
	Current Assets & Liabilities		
1,365	Cash Balances	1,507	
210	Contributions due from Employers	251	
387	Other Current Assets	172	21
(2,766)	Other Current Liabilities	(2,099)	22
122		1,186	
541,900	Net Assets	654,393	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 21.

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 28 September 2017.

David Robertson CPFA Chief Financial Officer 28 September 2017

NOTES TO THE STATEMENT OF ACCOUNTS

1 DESCRIPTION OF THE FUND

A) GENERAL

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted Bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) FUNDING

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions, which for 2016/17 were based on the valuation undertaken as at the 31 March 2014 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2016/17 ranged from 15.5% to 19.0%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2017. From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

	Service before 1 April 2009	Service after 31 March 2009 until 31 March 2016
Pension	Each year worked is worth 1/80 th x final pensionable salary	Each year worked is worth 1/60 th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A one off payment of £12 is paid for each £1 of pension given up.

From the 1 April 2015, the scheme will become a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2016/17 financial year and its position as at the 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2016/17 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Sch 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service. The recharge includes overheads apportioned to this activity.

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 27, page 48).

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2017 was £1.037m (2015/165 £0.846m). During the year contributions in totalled £0.153m, while payments out of the AVC fund totalled £0.056m. In accordance with regulation 4(2) (b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2017 was £25.2m.

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 27 page 47. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 PRIOR YEAR ADJUSTMENTS

Work undertaken prior to the implementation of the new finance system on 1st April 2017 and the transitional work required during the change of custodian in December 2016 highlighted a number of discrepancies. Further investigation was undertaken resulting in the restatement of the previous year accounts. The table below details the figures restated.

FUND ACCOUNT	2015/16 Published Accounts £000's	2015/16 Restated Figures £000's	Variance £000's
Investment Income	6,359	6,451	92
Profit and (losses) on disposal of Investments and changes in the Market Value of Investments	(3,519)	(4,282)	763
Closing Net Assets for the Scheme	542,570	541,900	(670)

NET ASSETS STATEMENT	2015/16 Published Accounts £000's	2015/16 Restated Figures £000's	Variance £000's
Other Current Liabilities	(2,096)	(2,766)	670
Net Assets	542,570	541,900	(670)

NOTE 14 – INVESTMENT INCOME	2015/16 Published Accounts £000's	2015/16 Restated Figures £000's	Variance £000's
Dividends from Equites	(5,569)	(5,661)	92

NOTE 15 – (PROFITS) AND LOSSES ON DISPOSLA OF INVESTMENTS AND CHANGES IN MARKET VALUE OF INVESTMENTS	2015/16 Published Accounts £000's	2015/16 Restated Figures £000's	Variance £000's
Unrealised	2,494	3,257	763

6 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 2017 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
Portfolio of alternative assets held in a fund of funds	The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation.	The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £98.7m. There is a risk that this investment may be under- or overstated in the accounts.

7 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2017.

8 CONTRIBUTIONS RECEIVABLE

2015/16					2016/17	
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,373	4,401	17,774	Normal	13,627	4,514	18,141
772	-	772	Special/Pension Fund Strain	202	-	202
-	96	96	Additional Voluntary	-	30	30
14,145	4,497	18,642	Total	13,829	4,544	18,373

9 TRANSFERS IN

There were no group transfers in to the scheme during 2016/17 or 2015/16 and the total of £1.074m (2015/16: 0.411m) represents the total of transfer values in respect of individual members joining the scheme.

10 BENEFITS PAYABLE

2015/16 £'000		2016/17 £'000
£ 000		£ 000
15,234	Pension Payments	15,910
5,123	Lump Sums/Death Benefits	4,076
20,357		19,986

11 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2015/16			2016/17	
Benefits Contributions Payable Receivable			Benefits Payable	Contributions Receivable
£'000	£'000		£'000	£'000
19,340	14,811	Scottish Borders Council	18,868	13,684
261	594	Scheduled Bodies	275	657
756	3,237	Admitted Bodies	843	4,032
20,357	18,642	Total	19,986	18,373

12 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16 £'000		2016/17 £'000
68	Contributions Returned	88
599	Individual Transfers to Other schemes	1,602
667		1,690

13 MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
301	Administrative costs	263
2,754	Investment management expenses	3,051
217	Oversight and governance costs	241
3,272	Total	3,555

13(a) INVESTMENT MANAGEMENT EXPENSES

2015/16 £'000		2016/17 £'000
2,543	Management Fees	2,878
-	Performance Related Fees	-
51	Transaction Costs	59
145	Custody Fees	102
15	Other Fees	12
2,754	Total	3,051

14 INVESTMENT INCOME

Restated 2015/16 £'000		2016/17 £'000
(5,661)	Dividends from equities	(7,142)
(771)	Income from Pooled Investment Vehicles	(1,133)
(19)	Interest on Cash Deposits	(17)
(6,451)		(8,292)

15 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

Restated 2015/16 £'000		2016/17 £'000
1,025	Realised	17,514
3,257	Unrealised	92,584
4,282		110,098

16 AUDITOR'S REMUNERATION

In 2016/17 the agreed audit fee for the year was £19,710. There were no other fees during 2016/17 paid to Audit Scotland, the Pension Fund's auditor.

17 ANALYSIS OF NET INVESTMENT ASSETS

Market Va	alue at 31 Ma	arch 2016		Market Value at 31 March 2017		
UK	Overseas	Total		UK	Overseas	Total
£'000	£'000	£'000		£'000	£'000	£'000
			Investment Assets			
46,438	157,515	203,953	Equities	53,293	204,219	257,512
			Managed Funds:			
32,546	-	32,546	Property	32,169		32,169
64,089	82,947	147,036	Equities	76,569	105,284	181,853
18,643	-	18,643	Bonds	20,379		20,379
-	39,913	39,913	Diversified Fixed Income		42,814	42,814
-	92,526	92,526	Alternatives		110,322	110,322
3,936	1,778	5,714	Cash Deposits	6,826	1,332	8,158
165,652	374,679	540,331	Total Investment Assets	189,236	463,971	653,207
			Investment Liabilities			
1,447	-	1,447	Derivative - Passive Currency Hedge			
167,099	374,679	541,778	Net Investment Assets	189,236	463,971	653,207

Alternative asset portfolio at 31 March 2017

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £98.734m at 31 March 2017, is allocated to the following asset classes at 31 March 2016: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity.

Investment Movement Reconciliation

	Opening Market Value	Purchases & Derivative Payments	Sales & Derivative Receipts	Other Movements	Closing Market Value
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
Equities	203,952	46,538	(43,747)	50,769	257,512
Managed Funds: Property	32,546	7,888	(3,741)	(4,524)	32,169
Equities	147,036	109	(1,240)	35,948	181,853
Bonds	18,643			1,736	20,379
Diversified Fixed Income	39,913	1,133		1,768	42,814
Alternatives	92,526	11,588		6,208	110,322
Derivative Contracts: Passive Currency Hedge	1,447		(1,447)		0
Other Investment balances - Cash	5,715			2,443	8,158
Net Investments	541,778	67,256	(50,175)	94,348	653,207

Significant Transactions during the year:

Following strategic asset allocation review £11.5m an initial investment was made to Private credit allocation with Alternatives.

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2017. Each of the investments comprises units in a managed fund.

Value as at 31 March 2016	£'000
M&G Alpha Opportunities Fund	42,814
Morgan Stanley Global Brands Fund	105,284
LGT Crown SBC Segregated Portfolio	98,734
UBS UK Passive Equities	74,744

Investments Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by seven firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G, Partners Group and LGT Capital Partners. The Fund's passive currency hedging programme to December 2017 was provided by State Street Global Advisors. As at 31 March 2016 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-	-16			31-Mar-	·17
£'000	%			£'000	%
62,415	11.49	UBS	UK Equities - Passive	74,745	11.44
39,111	7.20	Baillie Gifford	UK Equities	44,112	6.75
120,370	22.16	Baillie Gifford	Global Equities	151,003	23.12
50,278	9.26	Harris	Global Equities	69,221	10.60
82,947	15.27	Morgan Stanley	Managed Fund - Global Equities	105,284	16.12
39,913	7.35	M&G	Managed Fund - Diversified Income	42,814	6.55
18,643	3.43	M&G	Managed Fund - Bonds	20,379	3.12
32,812	6.04	UBS	Property	33,257	5.09
92,337	17.00	LGT	Managed Fund - Alternatives	98,734	15.12
1,447	0.27	State Street	Derivatives - Passive Currency Hedge		
		Partners Group	Managed Fund – Private Credit	11,588	1.77
2,871	0.53	Internal	Internally Managed Cash & Investments	2,070	0.32
543,144	100.00			653,207	100.00

The benchmarks and performance targets for each manager as at the 31 March 2017 are contained in Annex 1, Section 4.3, page 65 for information.

Fund Performance

The total Fund return for the year was 21.5% including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.4%. Excluding the currency hedging, the return on the Fund was 22.9% with a relative return over benchmark of 2.0%.

Over three years the Fund has generated an annualised return of 10.9% per annum, including the currency hedging, with a relative return over benchmark of 0.9% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

18 STOCK LENDING

As at 31 March 2017 no stock had been released to a third party under a stock lending arrangement.

19a FAIR VALUE HIERARCHY

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

- Level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equites and unit trusts. Prices are quoted at bid prices.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Values as at 31 March 2017	Quoted market price level 1 £'000	Using observable inputs level 2 £000's	With significant unobservable inputs level 3 £000's	Total £000's
Designated as fair value through fund account	494,027	34,427	116,547	645,001
Loans & receivables	6,099	5,015	38	11,152
Financial liabilities at fair value through fund account		(1,490)		(1,490)
Net Investment Assets	500,126	37,952	116,585	654,663

Values as at 31 March 2016	Quoted market price level 1 £'000	Using observable inputs level 2 £000's	With significant unobservable inputs level 3 £000's	Total £000's
Designated as fair value through fund account	401,671	34,220	98,725	534,616
Loans & receivables	4,295	2,786	1,447	8,528
Financial liabilities at fair value through fund account	-	-	-	-
Net Investment Assets	405,966	37,006	100,172	543,144

19b FAIR VALUE TRANSFERS & RECONCILATIONS

	Market Value 1 April 2016 £'000	Transfers into level 3 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2017 £'000
Private Credit	-	11,588	-	-	-	-	11,588
Alternatives	92,526	-	-	-	6,208	-	98,734
Property	3,137	-	-	-	35	-	3,172
Private Equity	3,062	-	-	-	29	-	3,091
Currency Hedge	1,447	-	-	(1,447)	-	-	-
Total	100,172	11,588	-	(1,447)	6,272	-	116,585

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Sales during the year reflect the discontinuation of the currency hedge following implementation of the revised Investment Strategy.

20 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	20.2
Global Pooled Equities	20.5
UK Bonds	6.1
Cash	1.1
Property	13.0
Alternatives	17.9

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 17 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	118,857	20.2	142,866	94,848
Global Equities	325,508	20.5	392,238	258,779
Total Bonds	63,193	6.1	67,048	59,338
Cash	2,070	1.1	2,093	2,047
Property	33,257	13.0	37,580	28,934
Alternatives	110,322	17.9	130,070	90,574
Total Assets Exc. Currency Hedge	653,207		771,894	534,520

^{*}The percentage change for total assets includes the impact of correlation across asset classes.

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2017 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2016 £'000	At 31 March 2017 £'000
Cash and Cash Equivalents	7,080	9,665
Fixed Interest Securities	58,556	63,193
	65,636	72,858

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

		Effect on Asset Values		
Asset Type	Value as at 31 Mar 17 £'000	Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000	
Cash and Cash Equivalents	9,665	97	(97)	
Fixed Interest Securities	63,193	632	(632	
	72,858	729	(729)	

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2016:

Currency exposure by asset type	As 31 March 2016 £'000	As 31 March 2017 £'000
Overseas Equities	243,370	309,504
Diversified Bonds	39,913	42,814
Alternatives	92,526	110,322
Cash - Foreign Currency	1,778	1,332
Total	377,587	463,972

Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following page. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket'.

Currency	Value as at 31 Mar 17 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	970	12.15%	1,088	852
Brazilian Real	991	17.55%	1,165	817
Canadian Dollar	1,197	10.24%	1,319	1,074
Chinese Yuan	1,886	10.33%	2,081	1,691
Danish Krone	2,404	9.22%	2,625	2,182
EURO *	41,621	9.25%	45,471	37,771
Hong Kong Dollar	4,114	10.29%	4,538	3,691
Japanese Yen *	12,598	15.19%	14,512	10,684
Mexican Peso	2,303	13.54%	2,615	1,991
Norwegian Krone	1,285	11.68%	1,435	1,135
South African Rand	5,005	17.25%	5,868	4,141
South Korean Won	907	14.14%	1,035	779
Swedish Krona	17,402	11.49%	19,402	15,403
Swiss Franc	6,313	12.23%	7,085	5,541
Taiwan Dollar	611	10.01%	672	550
US Dollar	176,184	10.57%	194,807	157,561
Total Currency *	275,791		305,718	245,863

^{*} The % change for Total Currency includes the impact of correlation across the underlying currencies.

B) CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately mentioned within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2017, including current account cash, was £3.53m (31 March 2016: £2.78m). This was held with the following institutions:

	Rating	Balance at 31 March 2016 £'000	Balance at 31 March 2017 £'000
Money Market Accounts			
Ignis	AAA	355	505
Scottish Widows	AAA	355	505
Blackrock	AAA	355	505
Prime Rate	AAA	355	505
Bank Current Accounts Bank of Scotland	Α	1,365	1,507
Total		2,785	3,527

C) LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2017, 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.

21 CURRENT ASSETS

Current Assets	As 31 March 2016 £'000	As 31 March 2017 £'000
Transfer value receivable (joiners)	330	68
Sundry Debtors	57	104
Prepayments	-	-
Total	387	172

Analysis of Debtors	As 31 March 2016 £'000	As 31 March 2017 £'000
Central government bodies	56	17
Other local authorities	181	132
NHS bodies	-	-
Public corporation & trading funds	-	-
Other entities & individuals	150	23
Total	387	172

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2016 £'000	As 31 March 2017 £'000
Transfer value receivable (joiners)	30	497
Sundry Creditors		1,138
Benefits payable		464
Total	2,766	2,099

Analysis of Debtors	As 31 March 2016 £'000	As 31 March 2017 £'000
Central government bodies		-
Other local authorities	674	211
NHS bodies		12
Public corporation & trading funds		-
Other entities & individuals	2,092	1,876
Total	2,766	2,099

23 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £2.86m (2016: £1.797m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.006m (2016: £0.010m). The Council charged the Pension Fund £0.333m 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 21 March	2016	2017
As at 31 March	£'000	£'000
Due (to)/from Scottish Borders Council	(1,486)	104

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2016/17. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

24 KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

31 March 2016 £000's		31 March 2017 £000's
85	Short-term benefits	86
-	Post-employment benefits	
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
87	Total	88

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 12% of the above post.

25 MEMBERSHIP RECONCILIATION 2016/17

	Membership Reconciliation – Number of Members				
	Contributing Members	Pensioners	Deferred Pensioners	Total	
Number at 31 March 2016	4,594	3,157	2,508	10,259	
Adjustments (late notifications etc.)	(33)	(1)	(11)	(45)	
New Members	530		2	532	
Transfers to Other Schemes	(9)		(13)	(22)	
Refunds of Contributions	(264)			(264)	
Retirement of Contributing Members	(142)	142		0	
Transfer to Deferred Pensioners	(258)		258	0	
Re-employed Deferred Pensioners	51		(27)	24	
Retirement of Deferred Pensioners		64	(64)	0	
Dependants' Pensions		43		43	
Deaths	(3)	(86)	(1)	(90)	
Commutation (trivial pensions)				0	
III Health Grant				0	
End of Entitlement		(5)		(5)	
Number at 31 March 2017	4,466	3,314	2,652	10,432	

26 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) (see Annex 1) was approved by the Pension Fund Committee on 22 June 2017 and a copy of this document can be found at: www.scotborders.gov.uk/pensions. Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and included below:

Funding Objectives (Section 1, page 2 of FSS)

To:

- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- build up the required assets in such a way that produces levels of employer contribution that are as stable as possible;
- ensure effective and efficient management of employer's liabilities; and
- allow the return from investments to be maximised within reasonable risk parameters.

Funding Strategy (Section 3, page 4 of FSS)

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
- As stable an employer contribution rate as is practical

2014 Actuarial Valuation

The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 (the full report can be seen in Annex 2) 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 £m	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 Va	aluation
	% p.a.	Real %	% p.a.	Real %
		p.a.		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	(8.0)
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 Rate			
Employers Contribution Grouping	2015/16	2016/17		
Scottish Borders Council Common Pool	18.0%	18.0%		
Leisure Trusts Common Pool *	15.5%	15.5%		
LIVE Borders		18.0%		
Scottish Borders Housing Association – Individual	-	19.0%		

^{*} During the inter-valuation period the Pension Fund Committee agreed, in consultation with the actuary, to reduce the rate for Borders Sport and Leisure Trust in order that they would undertake work to open up the LGPS scheme to their employees again. This was set at 15.5%. The amalgamation of BSLT and the Council Culture services into LIVE Borders however resulted in a revised rate of 18%.

27 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

	Net Pension Asset as at:				
	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m		
Present value of the defined benefit obligations	(716.6)	(696.9)	(906.9)		
Fair Value of Fund Assets* (bid value)	537.4	542.7	652.7		
Net Asset/(Liability)	(179.2)	(154.2)	(254.2)		

This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

	At 31 March 2015			March 16	At 31 March 2017	
	% p.a.	% p.a.	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Discount Rate	3.3	0.1	3.7	0.4	2.7%	0.0%
Retail Price Inflation (RPI)	3.2	-	3.3	-	2.7%	-
Pay Increases – Long Term	4.2	1.0	4.2	0.9	3.7%	1.0%
Pension Increases	2.4	(8.0)	2.4	(0.9)	2.7%	0.0%

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation (see Note 20) because IAS 19 stipulates a discount rate rather than a rate that reflects the market rate for investment returns on the Fund's assets.

28 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.

29 POST BALANCE SHEET EVENTS

On 23 June 2016, the result of the Referendum on membership of the European Union (EU) was a majority to leave. This resulted in initial volatility in some markets. As the discussions and negotiations continue to proceed, the final effect on investments and inflation on the liabilities remains currently unknown. The Fund's longer term investment strategy may require to be reviewed as the implications of the negotiations become clearer.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and financial statements of Scottish Borders Council Pension Fund for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the fund during the year ended 31 March 2017 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual report and accounts

The Chief Financial Officer is responsible for the other information in the annual report and financial statements. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- · the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA Audit Scotland 102 West Port Edinburgh EH3 9DN

29th September 2017

ANNEX 1



SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2017

Finance Chief Executive Version: 2017 v1

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2017.

1. The statutory requirements concerning the SIP

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:
 - The types of investment to be held
 - The balance between different types of investment
 - The risk considerations, including the ways in which risks are to be measured and managed¹
 - The expected return on investments
 - · Realising of investments
 - Taking account of social, environmental or ethical considerations in investments
 - Exercising the rights (including voting rights) attaching to investments
 - Stock Lending¹

1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)"

2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²

and

- The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

² Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

"To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis."

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

- 3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:
 - i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
 - ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.
- 3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,652 deferred members which are currently neither contributing nor receiving as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2013, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2016 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Harris Associates (Harris), Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate.
- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's current total target is to generate a return of at least 2.7% above CPI inflation assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2015.

Risk Measurement and Management

4.19 Asset Allocation

- The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.
- The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2016 by the Fund's investment consultant, it is envisaged that this will next be done during 2018/19 following the actuarial valuation as at 31 March 2017.
- v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

4.20 Investment Managers

i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or out performs their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 Proper Advice

The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant KPMG

Actuaries Barnett Waddingham

4.22 Concentration Risk and Diversification

- i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 Transition Management Arrangements

- i A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 Currency Risk

During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors the overseas currency exposure will act as an offset against losses in severely stressed market environments.

4.25 Safe Keeping of Assets

- The services of a global custodian, currently Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- iv Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 Cashflow Risk and Realisation of Investments/Liquidity

- The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- iii A small proportion of the Fund's investments, in particular Property, and future investments in other alternative assets would take longer to be realised.

5. Types of Investment

- 5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:
 - Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
 - Bonds
 - Property
 - Currency
 - Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
 - Cash (including Treasury Bills and Money Market Funds)
 - Derivatives and other Managed transactions
 - Infrastructure
- 5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the

stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.
- 6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.7 To demonstrate their commitment to ESG Fund Managers are encouraged to sign the United Nations Principles of Responsible Investment (UNPRI) Stewardship Code.
- The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction
- 6.9 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to

- employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.
- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles.*
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
 - i Effective Decision Making
 - ii Clear Objectives
 - iii Risk and Liabilities
 - iv Performance Assessment
 - v Responsible Ownership
 - vi Transparency and Reporting
- 8.5 **Appendix 5** contains this statement of compliance.

Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

- 1. Reviewing the Pension Fund's Statement of Investment Principles.
- 2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
- 3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
- 4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
- 5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
- 6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .
- 2. The Board also has the remit to determine the areas they wish to consider including, amongst others:
 - d) Reports produced for the Pension Fund Committee;
 - e) Seek reports from the Scheme Manager on any aspect of the Fund;
 - f) Monitor investments and the investment principles/strategy/guidance;
 - g) The Annual Report and Accounts for the Fund;
 - h) External voting and engagement provisions in relation to investments;
 - i) Pension Fund Administrative Strategy and associated performance;
 - j) Actuarial reports and valuations;
 - k) Funding Strategy Statement and associated policy; and
 - Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range / Tolerance %
UK Equity	UBS ¹	9.0%	
	Baillie Gifford	5.0%	
	Sub Total	14.0%	12% - 16%
Global Equity	Harries Associates	7.0%	
	Baillie Gifford	16.0%	
	Morgan Stanley	10.5%	
	Sub Total	33.5%	30% - 37%
Total Equity		47.5%	42% - 53%
Bonds			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts		5.0%	
	Total	15.0%	12% - 17%
Alternatives ²			
Multi-Asset Alternatives Fund	LGT Partners	7.5%	
Private Credit	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure		5.0%	
	Total	22.5%	20% - 25%
Property			
Balanced Property	UBS	5.0%	
Long Lease Property	Blackrock	10.0%	
	Total	15.0%	12% - 17%
Cash		0.0%	
Total		100.0%	

Note:

¹ This is a passive investment mandate which requires the FTSE All Share index to be tracked.

 $^{^2}$ Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
UK Equity	UBS	Benchmark Return	+0.0%	FTSE All-Share Index
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Global Equity	Harries Associates	Benchmark Return	+2.5%	MSCI All Country World Index
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index
Bonds			.0.50/	
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%%	1 Month LIBOR
Govt Fixed Interest Bonds	M&G	Benchmark Return	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
Corporate Fixed Interest Bonds	M&G *	Benchmark Return	+0.8%	iBoxx Sterling Non-Gilts Index
Index Linked Gilts	TBC	TBC	TBC%	TBC
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	LIBOR
	Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
	Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
	Infrastructure		+3.5%	RPI
Property	UBS	Benchmark Return	+0.75%	IPD UK PPFI All Balanced Funds Index
	Blackrock	Benchmark Return	+2.5%	RPI

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

Principle	Best Practice Guidance	Fund's Current Status
1. Effective Decision- Making		Full Compliance
Administering authorities should ensure that: • decisions are taken by persons or organisations with the	The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take	The Fund has a designated committee – the Committee - with the experience and skills to take decisions.
skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	 account of relevant skills, experience and continuity. The committee should have terms of reference, and where investment decisions are delegated the process should be 	The Committee's terms of reference is contained within the Scheme of Administration for the Council.
those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	recorded, with the roles of members, officers, advisers and managers specified. The committee should have	The Committee receives training either during meetings or at specific training sessions, including on investment issues.
	appropriate skills for, and is run in a way that facilitates, effective decision-making.	Induction training is provided for new Members and Officers.
of interest.	decision-making.	The Committee has an appointed investment consultant to provide specific investment advice.
	 There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions. 	The Chief Financial Officer and other senior officers provide advice and support to the Sub- Committee
1. Effective Decision- Making (contd.)	 It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. 	 The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. The Committee carry out regular
		reviews of the Fund and compliance with regulations.
	Do x @ 525	The Investment Consultant,

Principle	Best Practice Guidance	Fund's Current Status
	The committee should obtain proper advice at reasonable intervals from suitably qualified persons.	Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.
	The Chief Financial Officer should be given responsibility for developing a training plan for committee members.	The Committee's legal advisers and any other relevant parties review any new investment contracts put in place.
		There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members.
	A business plan should be in	Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer
	place which should include milestones and should review level of resources needed.	A business plan was agreed by the Committee on 16 June 2016
	 Members allowances should be published and reviewed regularly. 	 Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses)
	 Meeting papers should be clear and circulated sufficiently in advance of the meetings. 	 (Scotland) Regulations 2007. Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.

Principle	Best Practice Guidance	Fund's Current Status
2. Clear Objectives		Full compliance
An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme	 The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. 	The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy.
employers, and these should be clearly communicated to advisers and investment managers.	Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return.	The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters.
	Peer group benchmarks should be avoided.	An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation.
		Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices.
		The Committee regularly reviews the investment

Principle	Best Practice Guidance	Fund's Current Status
2. Clear Objectives (contd)	 Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. 	structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk). • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio.
Page 538	 The general and strategic impact of funding levels on tax should be considered and whether subfunds should be established. Transaction and transition costs should be fully understood. 	 At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
3. Risk and Liabilities		Full compliance
 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	 The committee should have a clear policy on willingness to accept underperformance due to market conditions. Acceptable tolerances from market index benchmarks returns should be stated. Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. 	 The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors.
539	 Overall fund objectives should be expressed in terms which relate to the liabilities. 	The overall Fund investment objective is expressed in terms which relate to the liabilities.
	The committee must receive an assessment of the risks associated with their liabilities, valuation and management.	The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. It has agreed to undertake a similar review during 2017 following the 2017 Actuarial valuation
	The annual report should include an overall risk assessment.	The annual report includes a Risk Management Statement

Principle Best Practice Guidance	Fund's Current Status
 The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. The committee should ensure the investment strategy is consistent with the scheme employers ability to pay. 	 The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.

Principle	Best Practice Guidance	Fund's Current Status
4. Performance Assessment	Investments	Full compliance
 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. 	 The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. Constraints on active managers should not be overly narrow or overly wide. Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. 	 The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods. The performance of the investment managers is measured quarterly by an independent performance monitoring company.
		 A comprehensive quarterly performance report is presented to the Committee.
	Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency.	Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports.
	Advisers	
	 Assessment should take account of the extent of decisions delegated. 	The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.

Principle	Best Practice Guidance	Fund's Current Status
Performance Assessment (contd) A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors.		Factors such as past performance and price are taken into account when re-tendering for external advisers.
	Decision making bodies The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.	Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.

Principle	Best Practice Guidance	Fund's Current Status
5. Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities.	 Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. The committee should ensure its policies are not overridden by an investment manager's general policies. 	 Full compliance The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership. Voting on underlying shareholdings is delegated to the fund manager. Details of the investment manager's house strategy are requested from the manager. Feedback on interventions to be provided during meeting with manager (minimum of once per annum).
	 The committee should ensure that investment consultants adopt the Institutional Share-holder Committee's (ISC) Statement of Practice relating to consultants. 	The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.
	The ISC's Statement of Principles on the	relating to consultants.

responsibilities of Institutional shareholders should	
be noted.	

Principle	Best Practice Guidance	Fund's Current Status
6. Transparency and Reporting Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • provide regular communication to scheme members in the form they consider most appropriate.	 An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. 	 Full compliance The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2000 1.0	SIP – created	March 2000	A Bowman
2006 1.0	SIP – update	March 2006	A Bowman
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb

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

Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells 01835 825249, treasuryteam@scotborders.gov.uk

ANNEX 2

Barnett Waddingham

Scottish Borders Council Pension Fund

Actuarial valuation as at 31 March 2014

Valuation report

Barnett Waddingham LLF

31 March 2015

Contents

- 1. Introduction and summary
- 2. Valuation data
- 3. Actuarial methods and assumptions
- 4. Valuation assumptions
- 5. Valuation results
- 6. Risk and uncertainty
- Appendix 1 Valuation data
- Appendix 2 Actuarial assumptions
- Appendix 3 Individual employer data as at 31 March 2014
- <u>Appendix 4</u> Rates and adjustment certificate
- <u>Appendix 5</u> <u>LGPS benefits</u>

Introduction and summary

Purpose of the valuation

We have carried out an actuarial valuation of Scottish Borders Council Pension Fund (the Fund) as at 31 March 2014, as requested by Scottish Borders Council. The Fund is part of the Local Government Pension Scheme (LGPS).

The valuation was carried out in accordance with Regulation 32 of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Regulations) as amended. The main purpose of the valuation is to review the financial position of the Fund and to set the level of future contributions for the employers in the Fund.

This report summarises the results of the valuation and is addressed to Scottish Borders Council as the Administering Authority to the Fund. It is not intended to assist any user other than the Administering Authority in making decisions. Neither we nor Barnett Waddingham LLP accepts any liability to third parties in respect of this report.

This advice is subject to and complies with Technical Actuarial Standards issued by the Financial Reporting Council (in particular, the Pensions TAS and the generic TASs relating to reporting, data and modelling).

Results of the valuation

The results of the valuation are that the past service funding level of the Fund as a whole has increased from 96% to 101% between 31 March 2011 and 31 March 2014. The improvement of the funding position since the previous valuation is mainly due to a combination of good investment returns over the intervaluation period and the deficit contributions paid by the employers.

The common rate of contribution, including payments to target full funding, is 18.0% of pensionable salaries. The individual employer contribution rates, as set out in Appendix 4, are adjusted to take account of this common rate of contribution and each employer's own circumstances. This position reflects an increase in cost of new benefits accruing as a result of an increasing average age profile compared to that at the previous valuation as at 31 March 2011, however this is offset by a decrease in deficit recovery contributions following an improvement in the funding position

We would be pleased to discuss any aspect of this report in more detail.

Graeme D Muir FFA Alison Hamilton FFA



Valuation data

Data sources

We have used the following items of data as provided by Scottish Borders Council.

Membership extract as at 31 March 2014;

Fund accounts split by employer for the three years to 31 March 2014; and

The results of the previous actuarial valuation as at 31 March 2011.

The data has been checked for reasonableness and any missing or inconsistent data has been estimated where necessary. While this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

A summary of the data is set out in Appendix 1.

Assets

The asset allocation of the Fund as at 31 March 2014 was as follows:

Asset allocation of the Fund	31 March 2014	
	£000s	%
UK equities	110,801	23%
Overseas equities	203,308	42%
UK gilts	15,372	3%
Corporate bonds	37,270	8%
Property	21,348	4%
Multi asset fund	83,987	17%
Cash	13,978	3%
Total	486,064	100%

We estimate that the return on the assets in market value terms for the three years to 31 March 2014 was approximately 8.5% p.a.

The current investment strategy is set out in a Statement of Investment Principles dated 4 December 2013.

Benefits

From 1 April 2015, The Local Government Pension Scheme (Scotland) Regulations 2014 and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 will come into effect and replace the current regulations.

- The benefits for service from 1 April 2015 will be based on the new regulations and these are summarised in Appendix 5. The main changes are to move from a final salary pension scheme based on 60ths accrual and a retirement age of 65 to a career average revalued earnings pension scheme based on 49ths accrual and a retirement age equal to State Pension Age.
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 serve the dual purpose of retaining the previous benefit structure for service up to 31 March 2015 and introducing new protections for members close to retirement to ensure that they are not disadvantaged by the benefit changes.
- In this valuation, the funding position for past service is based on the previous regulations in force up to 31 March 2014 and the future service cost is based on the Local Government Pension Scheme (Scotland) Regulations 2014.
- We have made no allowance for discretionary benefits awarded throughout the LGPS either by the Government or by employers. Where employers grant discretionary benefits we would expect them to fund the capital value of those benefits at that point.



Actuarial methods and assumptions

General valuation approach

We first estimate the future cashflows which will be paid from the Fund for the benefits relating to service up to 31 March 2014 and we do this for all current members and their possible dependants.

We then discount these projected cashflows using the discount rate to get a single figure for the value of the past service liabilities. This figure is the amount of money which, if invested now, would be sufficient to make these payments in future provided that the future investment return was equal to at least the discount rate used.

Various assumptions are needed for the above calculations and these are summarised in Section 4. The financial assumptions such as future inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2014 to 30 June 2014.

The market value of the assets at 31 March 2014 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the value of the liabilities. If the value of the smoothed assets is greater than the value of the past service liabilities, there is a surplus; if not, there is a deficit.

Using the same assumptions and a similar methodology we can also calculate the value of the liabilities expected to build up in the future after 31 March 2014 and we do this for each active member. This is then divided by the projected payroll to get a cost of future benefits expressed as a percentage of payroll. After deducting expected employee contributions, this is known as the future service cost and represents the employers' share of the cost of future benefits.

Multiple calculations

As part of the valuation, we are required to calculate results on an overall Fund level but also for the individual employers.

For the Fund's future service cost, we consider the benefits accruing in the single year following the valuation date.

This is known as the Projected Unit Method and results in a stable, long-term contribution rate over time if the assumptions adopted are borne out in practice and there is a steady flow of new entrants to the Fund. If the admission of new entrants is such that the average age of the membership profile increases then the contribution rate calculated at future valuations would be expected to increase.

At individual employer level we use the Projected Unit Method for active employers in the Fund who are open to new employees. For employers who do not, or do not appear to, allow new employees to join the Fund, we use a method known as the Attained Age Method which assesses the cost of future benefit accrual over all future years rather than just over the next year. This method generally produces a higher level of employer contribution than the Projected Unit Method but, for these closed employers, it should result in less revision in the future.



For closed limited-term employers such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the pure Projected Unit Method and the Attained Age Method.

The amounts that the employer then pays are a combination of the future service cost described above and any adjustments for the past service surplus or deficit.

Funding strategy

Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 states that the actuary must have regard to:

the existing and prospective liabilities of the Fund arising from circumstances common to all those bodies;

the desirability of maintaining as nearly constant a common rate as possible; and

the current version of the Administering Authority's Funding Strategy Statement.

The Funding Strategy Statement states that the key funding objectives are:

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; and

to build up the required assets in a way that produces employer contributions, which are as stable as possible.

We can confirm that, in our view, the methods and assumptions adopted meet this requirement.



Valuation assumptions

As mentioned in the previous section, various assumptions are needed for this valuation.

The principal assumptions are:

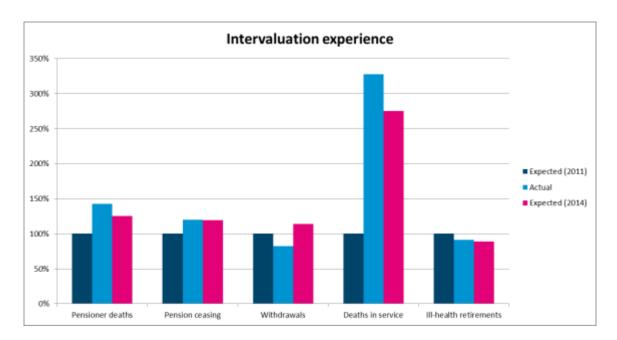
the discount rate - this is based on the expected investment return from the Fund's assets;

- pension increases and deferred revaluation these are set by the Pension Increase Order which is laid by the Government each year and expected to be linked to the Consumer Prices Index. Benefits earned by active members after 1 April 2015 will also be linked to the Pension Increase Order;
- salary increases active members' benefits for service before 31 March 2015 will continue to be linked to their final salary; and
- current and future rates of mortality over the last decade life expectancies have increased more quickly than most predictions so it is important that any assumptions made are as accurate as possible.
- The assumptions used for this valuation are based on the expected long-term cost of providing the benefits and we believe that these are suitable for setting the contribution amounts from employers. If an employer leaves the Fund, a different set of assumptions may apply to allow for the crystallisation of their funding obligations. Note that the funding assumptions are also not the same as those that would be used for statutory accounting purposes in employers' accounts.
- The assumptions and the rationale for them were discussed in our paper to the Administering Authority of 24 November 2014. The final assumptions have been adopted following discussion with the Administering Authority and are as set out in Appendix 2. We confirm that we believe that these are appropriate for the purposes of this valuation.

A comparison of the actual experience with the assumptions adopted at the previous valuation is summarised below:

Intervaluation experience	Actual	Expected
Investment return	8.5% p.a.	6.4% p.a.
Pay increases*	1.4% p.a.	5.0% p.a.
Pension increases	3.4% p.a.	3.0% p.a.
*includes short term overlay		

A comparison of the actual demographic experience of members of the Fund over the intervaluation period, with that assumed by the assumptions adopted at the last valuation in 2011 in relative terms is shown in the graph below. The graph also shows how the assumptions adopted for this valuation compare in relative terms with those adopted at 2011.





Valuation results

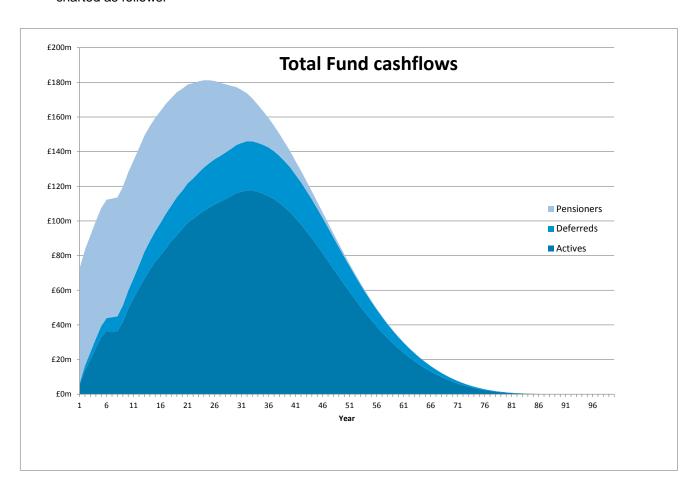
Previous valuation

The last formal actuarial valuation of the Fund was carried out as at 31 March 2011 by Barnett Waddingham LLP and the results of that valuation were set out in the formal valuation report dated March 2012.

The results of the previous valuation indicated that the assets of the Fund represented 96% of the value of the accrued liabilities of the Fund. The average employer contribution was calculated to be 17.8% of payroll which assumed that the past service funding level would be restored over a period of 12 years.

Projected cashflows

As mentioned above, the first stage is to project the expected cashflows in relation to past service, which can be charted as follows:





Past service funding position and contribution rates

The following table sets out the valuation results for the Fund as a whole. We show:

the past service funding position;

the required average ongoing employer contribution rate for future service benefits; and any deficit contributions required.

Past service funding position	31 March 2014
	£000s
Smoothed asset value	490,477
Active members	221,291
Deferred members	55,281
Pensioner members	211,059
Value of Fund liabilities	487,631
	0.040
Surplus/(Deficit)	2,846
Funding level	101%
Contribution rates	
Future service cost	18.0%
Deficit recovery	0.0%
Total	18.0%

The contributions payable by each employer are set out in Appendix 4. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

Sensitivity analysis

It is important to understand that these results indicate the expected cost of providing the benefits using the chosen method and assumptions. The actual cost of providing the benefits will depend on the future experience.



In order to illustrate this, a number of calculations have been carried out to highlight the sensitivity of the funding position to the assumptions adopted focusing on the assumptions to which the funding position is most sensitive, as shown below:

Change in financial assumption	Approximate effect on deficit
Increase in discount rate of 0.5%	decreases by £44m
Increase in CPI of 0.5%	increases by £27m
Increase in long-term rate of salary increase of 0.5%	increases by £6m
Change in demographic assumption	Approximate effect on deficit
1.25% long-term rate of improvement in mortality projection	decreases by £5m

Projected future results

The progression of the funding level over time is influenced by a large number of factors including any changes in membership, the investment return achieved and the contributions paid.

We estimate that three years after the valuation date (i.e. at the next valuation) the funding position on the same basis will be 101%. This allows for contributions to be paid as certified and assumes that investment returns and other experience over the next three years are in line with the assumptions described above.

Neutral estimate

We are also required to consider whether the assumptions used are neutral, that is "not deliberately either optimistic or pessimistic and does not incorporate adjustments to reflect the desired outcome".

Other than the discount rate, we consider all the assumptions used to be neutral.

We would consider a neutral discount rate to be 6.3% p.a. rather than 5.5% p.a. The higher discount rate results from removing some prudence from the equity return assumption. As a consequence we expect that the future returns from the Fund's investment strategy will be higher than the valuation discount rate and so we believe that the contributions set for this valuation are more likely to be sufficient to meet the cost of providing the benefits than not.

Valuation reconciliation

The following table sets out the principal reasons for the change in the funding position since the last valuation:

Barnett Waddingham

Public Sector Consulting

Change in past service position		
	£000s	£000s
Surplus(Deficit) at 31 March 2011		(17,377)
Benefits accrued	(46,338)	
Early retirements	(3,068)	
Contributions paid	53,913	
Deficit funded (use of surplus)	4,507	
Interest cost	(2,816)	
Asset gain/loss	25,599	
Change in market conditions	(3,189)	
Financial gain(loss)	19,594	
Salary increases	22,310	
Pension increases	(2,443)	
Membership movements	135	
Experience	20,002	
Change in assumptions	(23,880)	
Surplus(Deficit) at 31 March 2014		2,846

As we can see, the main reason for the decrease in deficit is the investment returns being higher than assumed at the previous valuation and the payment of contributions from employers, in particular, the deficit contributions paid by the employers to reduce the deficit.



Risk and uncertainty

There are many factors that affect the financial position of the Fund, in particular:

- **Employer covenant risk** there is a risk to the Fund that any of the employing bodies may be unable to pay contributions or meet any cessation deficits as they fall due.
- The Fund should monitor the strength of each employer in the Fund over time, so that any sudden changes in an employer's position can be mitigated.
- Investment risk allowance is made in the assumptions for the expected long-term performance of asset classes such as equities. There is a risk that these returns will not be achieved in practice which may result in further contributions being required. Further, the value of the Fund's assets may not move in line with the value of the Fund's liabilities mainly because the Fund invests in volatile assets whose value might fall or rise less than expected.
- The sensitivity of the valuation results to changes in the investment return assumptions is shown in 5.7 above.

 The Fund should regularly review their investment strategy to ensure they understand the risks being taken and that those risks are being appropriately managed.
- **Inflation** in projecting the expected future benefit payments, we make assumptions regarding future price inflation. There is a risk that the actual rate of inflation will be higher than assumed which will increase the cost of providing the benefits. This would result in additional contributions being required and a deterioration in the funding position unless investment returns are similarly higher than expected.

The sensitivity of the results to the choice of inflation assumptions is also shown above.

- **Mortality** it is not possible to predict with any certainty how long members of the Fund will live, and if members live longer than expected, additional contributions will be required and the Fund's funding position will deteriorate.
- The sensitivity of the results to the choice of mortality assumptions is also shown above. The Fund should review their mortality assumptions at each valuation, taking into account all available evidence, to ensure they remain appropriate for the Fund.
- **Member options** certain benefit options may be exercised by members without the consent of the Fund or the Employer. For example, exchanging pension for cash at retirement or taking a transfer value. The value of the cash benefit is generally expected to be less than the value of the pension exchanged so the funding position would only deteriorate if fewer members than expected took this option. Individual transfer values can be higher or lower than the value of the valuation liabilities, depending on the particular member and market conditions.
- Legislative changes there are a number of legislative risks to the Fund and the LGPS in general, including:
 - All benefits relating to membership after 31 March 2015 will be linked to the individual's State Pension Age;
 - Contracting-out of the State Second Pension is due to end in 2016 and it is not yet clear what the effect on the LGPS will be;



The potential effects of GMP equalisation between males and females, if implemented, are not yet known;

- As part of the changes to the LGPS from 1 April 2015, a cost control mechanism has been implemented so that if the future cost turns out to be higher or lower than expected when the reforms were made, a review of the benefits may be triggered;
- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits; and
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the Government.

Appendix 1 Valuation data

A summary of the membership records submitted for the valuation is as follows.

Active members			Actual pens	ionable pay	Ave	rage	This val	uation
	Nur	nber	£0	00s		ε	Average age	Average retirement age
	2014	2011	2014	2011	2014	2011		ŭ
Males	1,292	1,372	29,526	31,150	22,853	22,704	48.8	62.5
Females	3,051	2,999	41,764	41,705	13,688	13,906	47.3	63.3
Total	4,343	4,371	71,290	72,855	16,415	16,668	47.8	63.1
Pensioners			Annual I	Pensions	Ave	rage	This Va	uation
	Nur	nber	£0	00s	:	٤	Averag	e Age
	2014	2011	2014	2011	2014	2011		
Males	1,107	974	8,868	7,206	8,010	7,398	70.	5
Females	1,339	1,046	4,156	3,242	3,104	3,099	68.	3
Dependants	454	410	1,223	1,031	2,695	2,515	72	0
Total	2,900	2,430	14,247	11,479	4,913	4,724	69.	7
Deferred pensioners			Annual	pensions	Ave	rage	This val	uation
(including "undecideds")	Nur	nber	£0	00s	,	E	Average age	Average retirement age
	2014	2011	2014	2011	2014	2011		
Males	595	573	1,345	1,229	2,261	2,145	47.6	61.9
Females	1,749	1,535	2,143	1,694	1,225	1,104	47.8	62.8
Total	2,344	2,108	3,488	2,923	1,488	1,387	47.8	62.4

Notes

The numbers relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

Annual pensions are funded items only and include pension increases up to and including the 2014 Pension Increase Order.

Pensionable pay is actual earnings.

A summary of the revenue accounts for the three years preceding the valuation date is as shown below:

Revenue accounts	Year to	March 2014	March 2013	March 2012	TOTAL
		£000s	£000s	£000s	£000s
Expenditure	Retirement pensions	13,781	13,186	12,026	38,993
	Retirement lump sums	3,449	3,892	5,988	13,329
	Death benefits	-	-	-	-
	Leavers benefits	1,466	1,087	533	3,086
	Expenses	366	278	287	931
	Other expenditure	0	0	0	0
	Total	19,062	18,443	18,834	56,339
Non investment income	Employees ctbns	4,355	4,275	4,559	13,189
	Employers ctbns	12,829	13,398	14,497	40,724
	Transfer values	1,096	918	1,639	3,653
	Other income	0	0	0	0
	Total	18,280	18,591	20,695	57,566
New money for investment		(782)	148	1,861	1,227
Investment income		4,212	4,958	6,142	15,312
Fund value					
Assets at start of year		445,957	393,404	379,339	379,339
Cashflow		3,430	5,106	8,003	16,539
Change in value		36,677	47,447	6,062	90,186
Assets at end of year		486,064	445,957	393,404	486,064
Annual returns					
Approx rate of return (p.a.)		9.2%	13.3%	3.2%	8.5%



Appendix 2 Actuarial assumptions

A summary of the assumptions adopted in the valuation is set out below:

Future assumed returns at 2014 weight					
Equities	5.9% p.a.	65%			
Gilts	3.6% p.a.	3%			
Cash	3.4% p.a.	3%			
Bond	4.1% p.a.	8%			
Property	5.5% p.a.	4%			
Multi asset fund	5.9% p.a.	17%			
Expense allowance	0.1% p.a.				

Financial assumptions	2014	2011
Discount rate	5.5% p.a.	6.4% p.a.
Retail price inflation (RPI)	3.6% p.a. (20 year point on the BoE Inflation Curve)	3.5% p.a.
Consumer price inflation (CPI)	2.8% p.a. (RPI less 0.8%)	3.0% p.a.
Pension and deferred pension increases	2.8% p.a. (RPI less 0.8%)	3.0% p.a.
Short term pay increases	In line with the CPI assumption for the 2 years to 31 March 2016	Half of the long term assumption for the 2 years to 31 March 2013
Long term pay increases	4.6% p.a. (RPI plus 1% p.a.)	5.0% p.a.

Statistical assumptions	2014	2011
Post retirement mortality		
Current mortality	S2PA tables (100% multiplier for males and 115% for females)	100% of the S1PA tables
M o rtality pro jection	2013 CM I Model with a long term rate of improvement of 1.5% p.a.	2011 CM I M odel with a long term rate of improvement of 1% p.a.
Retirement ages	Each member retires at their weighted average "tranche retirement age", i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits.	For each tranche of benefit, active members retire 1 year later than entitled to retire and receive unreduced benefits. Deferred members retire at the earliest age they can receive unreduced benefits.
	If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.	Active and deferred members over these respective ages are assumed to retire immediately.
Proportion married	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits.	90% of members are assumed to be married or have an eligible dependant at retirement or earlier death.
Partner age difference	M ales are three years older than their spouse and females are three years younger than their spouse.	Males are three years older than their spouse and females are three years younger than their spouse.
III-health tiers	50% of ill-health retirements will be eligible for benefits based on full prospective service and 50% will qualify for a service enhancement of 25% of prospective service.	15% of ill-health retirements will be eligible for benefits based on full prospective service and 85% will qualify for a service enhancement of 25% of prospective service.
Commutation	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HM RC rules and this will be at a rate of £12 lump sum of £10f pension.	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £10f pension.
50/50 scheme allowance	It is assumed that no active members will take up this option.	n/a
Other statistical assumptions	Same as used by Government Actuary's Department when LGPS reforms were designed and based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds.	Based on our analysis of the incidence of pre-retirement death, retirement and withdrawal of our Local Authority client funds.
	Sample rates shown below	

	Incidence per 1000 active members per annum							
	De	ath	III Health I	Retirement	Witho	drawal	Salary	Scales
Age	Males	Females	Males	Females	Males	Females	Males	Females
25	0.1	0.1	0.1	0.1	122.0	144.5	100	100
30	0.2	0.1	0.2	0.1	104.4	122.4	102	101
35	0.3	0.2	0.3	0.3	89.4	103.6	111	105
40	0.5	0.3	0.6	0.5	76.5	87.7	117	108
45	0.8	0.5	1.1	0.8	65.5	74.3	121	110
50	1.3	0.8	2.2	1.6	56.0	62.9	124	110
55	2.1	1.3	4.1	2.9	48.0	53.3	127	110
60	3.4	2.0	7.8	5.3	41.0	45.1	127	110
65	5.4	3.0	14.8	9.8	35.1	38.2	127	110

Appendix 3 Individual employer data as at 31 March 2014

mploye	er membership data		Active membe	rs	D	eferred memb	ers	P	ensioner meml	oers
ode	Employer	Number	Actual pay £	Average age	Number	Deferred pensions £	Average age	Number	Pensions in payment £	Average age
1	Borders Regional Council	-	-	-	164	241,185	53.0	610	2,448,467	78.3
2	Berwickshire District Council	-	-	-	5	See Note 1	See Note 1	35	116,985	74.0
3	Ettrick and Lauderdale District Council	-	-	-	19	31,602	52.7	72	197,515	77.9
4	Roxburgh District Council	-	-	-	24	37,175	54.5	92	454,307	79.6
5	Tweeddale District Council	-	-	-	15	16,426	51.0	39	169,558	80.8
6	Tweed River Purification Board	-	-	-	4	See Note 1	See Note 1	3	See Note 1	See Note 1
7	Scottish College of Textiles	-	-	-	2	See Note 1	See Note 1	19	96,806	80.2
8	Red Cross Housing Association Ltd	-	-	-	-	-	-	1	See Note 1	See Note 1
10	Project'80 Council Burnfoot	-	-	-	-	-	-	1	See Note 1	See Note 1
11	Visit Scotland	1	See Note 1	See Note 1	9	23,743	48.9	7	40,821	63.4
12	Stable Life	-	-	-	1	See Note 1	See Note 1	1	See Note 1	See Note 1
13	Borders College	133	2,136,278	49.0	56	73,013	46.9	41	175,502	66.1
15	Scottish Borders Careers	-	-	-	3	See Note 1	See Note 1	1	See Note 1	See Note 1
16	Scottish Borders Council	3,965	63,832,482	47.8	1,932	2,684,691	47.2	1,887	9,922,978	66.0
17	Berwickshire Housing Association	-	-	-	-	-	-	1	See Note 1	See Note 1
18	B C Business Consultants	-	-	-	22	45,347	50.4	10	24,220	66.0
19	Scottish Borders Housing Association	137	3,289,477	45.8	60	248,774	45.0	63	412,630	65.1
20	Scottish Borders Building Services	-	-	-	-	-	-	-	-	-
21	Jedburgh Leisure Facilities Trust	2	See Note 1	See Note 1	2	See Note 1	See Note 1	-	-	-
22	Borders Sport and Leisure Trust	60	1,142,189	43.7	19	35,850	42.0	6	49,373	64.4
23	Lothian and Borders Community Justice Authority	5	See Note 1	See Note 1	2	See Note 1	See Note 1	1	See Note 1	See Note 1
24	AMEY	10	134,636	56.1	2	See Note 1	See Note 1	2	See Note 1	See Note 1
999	Councillors	30	568,887	61.1	3	See Note 1	See Note 1	8	25,362	69.1

Note 1: Membership details have been excluded for privacy reasons where there are fewer than five members.



Appendix 4 Rates and adjustment certificate

In accordance with Regulation 32 of the Local Government Pension Scheme (Administration) Scotland Regulations 2008 we have made an assessment of the contributions which should be paid to the Fund by the Fund employers as from 1 April 2015 in order to maintain the solvency of the Fund.

The common rate of contribution payable by each employing authority under Regulation 32 for the period 1 April 2015 to 31 March 2018 is 18.0% of pensionable payroll.

However, each employer pays contributions based on their particular circumstances and so individual adjustments are made. These give the following minimum total contributions as set out below.

		Minimum employer t	contributions due as he year beginning	s a % of salary for
Code	Employer	1 Apr 2015	1 Apr 2016	1 Apr 2017
Scottish	Borders Council Funding Pool			
11	Visit Scotland	18.0%	18.0%	18.0%
13	Borders College	18.0%	18.0%	18.0%
16	Scottish Borders Council	18.0%	18.0%	18.0%
23	Lothian and Borders Community Justice Authority	18.0%	18.0%	18.0%
24	AMEY	18.0%	18.0%	18.0%
Leisure 1	<u> Frust Funding Pool</u>			
21	Jedburgh Leisure Facilities Trust	15.5%	15.5%	15.5%
22	Borders Sport and Leisure Trust	15.5%	15.5%	15.5%
Individua	<u>al</u>			
19	Scottish Borders Housing Association	19.0%	19.0%	19.0%

Notes

Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumptions discussed with us.

The certified contribution rates represent the minimum level of contributions to be paid. Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us.



Projected new benefits

The following table shows the amount of new pension and lump sum benefits (excluding non ill health early retirement benefits) projected to come into payment in each year during the period 1 April 2015 to 31 March 2018.

Year to	Retirement benefits £000s
31/03/2016	3,391
31/03/2017	5,158
31/03/2018	5,369



Appendix 5 LGPS benefits

The benefit changes from 1 April 2015 involve the formation of a new scheme, referred to below as SLGPS 2015. Transitional regulations are applied so that the benefits in the previous SLGPS 2008 scheme are maintained.

LGPS benefits	SLGPS 201	SLGPS 2014 REGS		SLGPS 2008 REGS		
Commencement date	1 April 2	1 April 2015		1 April 2009		
Type of scheme		Career Average Revalued Earnings (CARE)		Final Salary		
Pension benefit accrual	1/49 ^t	1/49 th		1/60 th		
Revaluation	Consumer Prices	Consumer Prices Index (CPI)		Based on Final Salary		
Lump sum	By commuta	By commutation 12:1 up to a maximum of 25% of lifetime allowance				
Pensionable pay	Pay including of	Pay including contractual overtime and additional hours for part time staff				
Member contributions		Tiered contributions based on actual pensionable pay		Tiered contributions based on full time equivalent pensionable pay		
Contribution table (as at 2014)	Earnings range based on actual pensionable pay as at 31 March 2014	Gross contribution rate for 2014/15	Earnings range based on FTE pensionable pay as at 31 March 2014	Gross contribution rate for 2014/15		
	Earnings up to and including £20,300	5.5%	Earnings up to and including £20,300	5.5%		
	Above £20,300 and up to £24,800	7.25%	Above £20,300 and up to £24,800	7.25%		
	Above £24,800 and up to £34,000	8.5%	Above £24,800 and up to £34,000	8.5%		
	Above £34,000 and up to £45,300	9.5%	Above £34,000 and up to £45,300	9.5%		
	On earnings above £45,300	12.0%	On earnings above £45,300	12.0%		
Contribution flexibility	Member can pay 50% 50% of the pen		Not available			
Normal pension age	Linked to individual Pension Age (min		Age 65			
Death in service lump sum		3 x pensionable pay				
Death in service survivor benefits	1/160 th acc	1/160 th accrual based on Tier 1 ill health pension enhancement				
III health provision	Tier 1 - Immedia	Tier 1 - Immediate payment with service enhanced to normal pension age				
	Tier 2 - Immediate pa	Tier 2 - Immediate payment with 25% service enhancement to normal pension age				
Post retirement revaluation	СРІ	СРІ		CPI (Retail Price Index for pre-2011 increases)		
Vesting period		2 years				



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Members who joined the LGPS before 1 April 2015 and after 31 March 2009				
Benefits	Membership built up to 31 March 2015, benefits will be based on a pension of 1/60 th x membership x final pay at retirement and the normal pension age applying to the LGPS 2008.			
Members who joined the LGPS before 1 April 2009				
Benefits	Membership built up to 31 March 2009, benefits will be based on a pension of $1/80^{th}$ x membership x final pay at retirement plus an automatic lump sum of 3 times their pension.			
Early payment - reduction to benefits (Rule of 85)	For members of the LGPS on 30 November 2006, some or all of their benefits paid early could be protected from reduction under what is called the Rule of 85.			
	The Rule of 85 is satisfied if their age at the date they draw their benefits plus their scheme membership (each in whole years) add up to 85 or more.			
	If they could not satisfy the Rule of 85 by the time they are 65 , then all of their benefits are reduced, if they choose to retire before age 65.			
	If they will be age 60 or over by 31 March 2020 and choose to retire before age 65, then provided they satisfy the Rule of 85 when they start to draw their pension, the benefits they build up to 31 March 2020 will not be reduced.			
	If they will be under age 60 by 31 March 2020 and choose to retire before age 65, then provided they satisfy the Rule of 85 when they start to draw their pension, the benefits they have built up to 31 March 2008 will not be reduced.			

ANNEX 3

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 <u>specialist management</u>.

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 <u>value manager</u>.

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 <u>active management</u>.

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 <u>segregated</u> 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 <u>market value</u> 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, <u>www.scotborders.gov.uk/pensions</u>, 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: Audit Scotland

Bankers: Bank of Scotland

Investment Consultancy: AON Hewitt to 31 March 2016, KPMG from 12 April 2016
Investment Custodians: JP Morgan to 30 Nov 2106, Northern Trust from 1 Dec 2016
Investment Managers: Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G,

Partners Group and Harris Associates

Additional Voluntary

Contributions (AVC) Managers: Standard Life

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

Graeme Wilson Telephone 01835 – 824000 Ext 5341
E-mail gwilson@scotborders.gov.uk

Scheme members should have a copy of the "Employees' Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council", and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at: www.scotborders.gov.uk/pensions

For further information on the Fund's investments, please contact

Kirsty Robb Telephone 01835 – 825249

Capital & Investment Manager E-mail krobb@scotborders.gov.uk

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: Imirley@scotborders.gov.uk





INTERNAL AUDIT WORK TO AUGUST 2017

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

25 September 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.
- 1.2 The work Internal Audit has carried out in the period from 10 June to 31 August 2017 is detailed in this report. During this period a total of x final Internal Audit reports have been issued. There were 8 recommendations made relating to 2 of the reports which have been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:
 - Notes the final assurance reports issued in the period from 10 June to 31 August 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;
 - b) Notes the Internal Audit consultancy and other work undertaken in this period; 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 2017/18 was approved by the Audit and Risk Committee on 28 March 2017. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 10 June to 31 August 2017, associated with the delivery of the approved Internal Audit Annual Plan 2017/18, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS), effective April 2013 and amended April 2017, including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
 - Performance Management: Local Government Benchmarking Framework (LGBF)
 - Children & Young People Services: Excursions
 - Carbon Reduction Programme
 - Fleet Management
 - Public Services Network (PSN) Compliance
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2017/18 consists of the following:

Audit Area	Audit Stage
Industrial and Business Premises	Audit testing nearly completed
Contract Management	Audit testing nearly completed
Revenues: Council Tax	Audit testing nearly completed
Community Engagement	Audit testing underway
Registration Service	Audit testing underway

Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
 - 3.6.1 Involvement in the independent validation of Revenue Budget data migrated to the new Business World ERP system which went live from April 2017.
 - 3.6.2 In its 'critical friend' role, providing internal challenge on the planned programme of "How Good is Your Council" assessment and evidence completed by various Services to support self-evaluation and improvement as part of the Performance Management Framework.
 - 3.6.3 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
 - 3.6.4 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an ongoing basis to ensure fraud risk is considered in every audit.
 - 3.6.5 Highlighting opportunities by way of a report to Management to improve the effectiveness, efficiency and sustainability of the arrangements for internal recharging of Passenger Transport Services provided to the Children and Young People Service and the Adult Social Care Service through innovation and change.

Recommendations

3.8 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

Priority 1: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.

Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.

Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.

Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement. p_{age} 577

3.9 The table below summarises the number of Internal Audit recommendations made during 2017/18:

	2017/18 Number of Recs
Priority 1	0
Priority 2	4
Priority 3	4
Sub-total reported this period	8
Previously reported	7
Total	15

Recommendations agreed with action plan	15
Not agreed; risk accepted	0
Total	15

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." Specifically as "a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2017/18, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

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 Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director 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 Scrutiny Committee 28 June 2017

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

APPENDIX 1

Report	Summary of key findings and recommendations	Recor	nmend	ations	Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Performance Management (LGBF)	The purpose of the review was to validate the Council's Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).	0	0	0	Management have agreed the report findings.
No: 016/011 Date issued: 15 September 2017 Level of Assurance: Substantial	We tested the 12 PIs figures for the 2016/17 submission under 4 headings (Corporate; Corporate Assets; Culture & Leisure; and Environment) 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. The validation testing found a few anomalies which were the result of data transcribing and two errors with the data collected which raised concerns about the collection methods used in the draft PIs 2016/17. However, these were all corrected prior to submission. The individual data collection methods applied by the services are suitable with the majority of services having adequate validation / quality assurance mechanisms in place. This review has identified where better validation is required in specific areas, and the relevant service areas are aware of that required improvement. We consider that the figures for these PIs, as detailed in the final LGBF 2016/17 pro-forma, are reasonable and agree to the underlying records. The Council's LGBF Indicators 2016/17 return was submitted by the August 2017 deadline. Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error. With the advent of further organisational changes and significant system development during 2017/18 there is also a need to ensure performance monitoring and reporting is robust.				Further Internal Audit work relating to Performance Management across all Council services will continue during the year including sample testing of the PIs reported against the Council's 8 corporate priorities.

Report	Summary of key findings and recommendations	Recor	mmend	ations	Status
•	, , ,	1	2	3	
Audit Plan Category: Internal Controls Subject: Children & Young People School Excursions No: 165/001 Date issued: 6 September 2017	The purpose of this assurance audit was to ensure that there is a governance framework in place for School Excursions, that it complies with legislative requirements, substantially conforms to best practice guidance and is reflected in current policies and procedures; and that there are satisfactory risk management and internal control arrangements in place to safeguard participants and adequate assurances are in place to evidence the effectiveness of these arrangements.	0	1	3	Management have agreed the report findings and have developed a detailed Action Plan to assist with implementation of recommendations
Level of Assurance: Substantial	·			during the 2017/18 academic session.	
	There is currently no monitoring of Category 1 & 2 Excursions and although some central monitoring of Category 3 Excursions takes place this could be improved. Further standardisation of processes for Establishments to follow would further enhance the controls and enable Outdoor Education to perform the necessary 2nd line of defence monitoring and Management assurance.				

Report	Summary of key findings and recommendations	Recor	nmend	ations	Status
·	, , ,	1	2	3	
Subject: Subject: Children & Young People School Excursions (cont'd)	Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave the Council vulnerable to risk.				
	We made the following recommendations:				
Page 582	 Material Policy updates and relevant appendices should be approved, utilising the delegated powers of the Service Director Children & Young People "Authorise and approve educational excursions", and appended to the procedures to enable easy access by Schools. (P3) 				
	 The importance of compliance with policy and procedures should be reaffirmed including those on authorisations, post excursion reporting, accident reporting, monitoring of compliance with the excursions procedures and processes, and assurance reporting to Management. (P3) 				
	 Clear guidance on the Disclosure requirements for non- supervisory, non-staff adults accompanying an excursion should be clarified with the support of HR and Legal services. (P2) 				
	 Consideration should be given to the use of "Evolve" software to facilitate better standardisation and centralisation of processes and provide valuable Management Information to support monitoring and assurance reporting. A cost benefit analysis should be undertaken. (P3) 				

Report	Summary of key findings and recommendations	Recor	nmend	ations	Status
<u> </u>	, , ,	1	2	3	
Audit Plan Category: Asset Management Subject: Fleet Management No: 204/004 Date issued: 15 September 2017 Level of Assurance: Substantial	The purpose of this assurance audit was to evaluate controls in place to ensure value for money in fleet replacement decisions, procurement practices for fleet assets, workforce planning and service sustainability. The following good practice was found: • The replacement decision is based on a number of factors the most important being the assessed end of life. When a vehicle has reached its originally assessed end of life its performance is reviewed in terms of utilisation, reliability, repairs history and continued suitability to the service. The review is prompted by reporting of vehicles at end of life from the Tranman system. Based upon this assessment the vehicle life may be extended or a decision made to replace. Fleet Management will advise the Service area on the best options but the final decision rests with the Service area. • Procurement processes are in place to ensure that the Council complies with complex procurement legislation using a considered and measured approach which is defensible in the event of a challenge. • Fleet Management is not a trading operation but generates income from both internal and external sources which exceed the full cost of operations, offering highly competitive rates in a challenging environment. There are a number of matters which require consideration in order to manage the risks to the sustainability of the service and to consistently evidence best value for service users: • Finance recognises that deferring replacement on the basis of short term affordability is not sustainable indefinitely and is developing a proposal on a business case basis. • The procurement process is a multidisciplinary activity involving Service Managers, Fleet Management and both the Procurement and Finance sections. The process is a time consuming but essential aspect in ensuring that the Council meets its legal obligations.	0	3	1	Management have agreed the report findings and to implement recommendations made within appropriate timescales.

Report	Summary of key findings and recommendations	Recon	nmend	ations	Status
·	, , ,	1	2	3	
Subject: Fleet Management (cont'd)	 A workforce plan for Fleet Management has been produced for 2016 to 2021. The plan identifies a number of serious issues which remain largely unresolved. Whilst Fleet Management offers highly competitive rates in a challenging environment, transparency in the breakdown of costs to Service Users could be improved. 				
	Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or not deliver best value.				
Page 584	 We made the following recommendations: The proposal that replacement of fleet assets is based on a business case should be developed further and refined by Finance. Fleet Management and Service Managers should be involved in developing revised processes. Finalised proposals should be presented to the Chief Financial Officer for assessment and possible approval. (P2) Given the complexity and possible long lead times in procuring fleet assets Fleet Management and Service Managers should start the procurement process earlier in each financial year; Whole of Life costs should be used in the evaluation of competition responses to secure the asset which represents best value rather than that with the least initial cost. (P2) Actions to address the issues identified in Fleet Management workforce plan should be progressed to assist with key person dependency, management capacity, recruitment and retention, and succession planning. (P2) For repairs above an agreed value service users should receive a full cost breakdown which includes a reasonable estimate of what the cost would have been had the repair been undertaken by the main dealer. (P3) 				

Report	Summary of key findings and recommendations	Recor	Recommendations		Status
		1	2	3	
Audit Plan Category: Legislative and Other Compliance Subject: Carbon Reduction	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).	0	0	0	Management have agreed the report findings.
No: 202/010 Date issued: 18 September 2017 Level of Assurance: Comprehensive	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; Collation of data; Annual Return data; Energy efficiencies achieved and underway; and Performance reporting.				
Page 585	The 2016/17 annual submission has been completed and reported to DECC by end of July 2017 deadline along with the annual Audit Certificate. There is a very good level of knowledge whilst using the Systemslink database (good practice).				
Ō	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 carbon emissions for the Council for 2016/17 are 13,084 tCO $_2$ for 2016/17 at a cost of £211K; a reduction from 16,451 tCO $_2$ costing £262K for 2015/16. Contributing factors are: SB Cares was discounted from the annual return since 2015/16 and Live Borders from 2016/17; and implementation of energy efficiency spend-to-save programmes and initiatives across the Council.				
	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.				

Report	Summary of key findings and recommendations	Recor	nmend	ations	Status
		1	2	3	
Audit Plan Category: ICT Governance Subject: Public Services Network (PSN) Compliance	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.	0	0	0	Management have agreed the report findings.
Network (PSN) Compliance No: 237/003 Date issued: 15 September 2017 Level of Assurance: Comprehensive	 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 risks and issues were in place; The PSN Project Board met regularly and was provided with good quality information, which facilitated effective decision making; Comments and observations from previous audit reports had been taken on board. A successful submission of the Council's PSN Code of Connection Application was made in July 2017 and the Council achieved accreditation of its compliance with the requirements of the Public Services Network (PSN) with the Certificate issued by the Cabinet Office dated 4 September 2017. The Council is now fully PSN compliant and accredited until 4 September 2018. The PSN Project Manager will prepare an End of Project report which will include lessons learned and will be issued to the Project Board mid-September 2017. For future years the PSN compliance and accreditation process will be overseen by the continuance of the PSN Project Board throughout the year to facilitate effective planning and compliance monitoring for the annual submission. 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. These should be effective in mitigating risks to the achievement of objectives. 				
	We have made no recommendations.				