

# Public Document Pack



## AUDIT AND SCRUTINY COMMITTEE TUESDAY, 26 JUNE 2018

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 26 JUNE 2018 at 10.00 am

J. J. WILKINSON,  
Clerk to the Council,

20 June 2018

<b>BUSINESS</b>		
1.	<b>Apologies for Absence.</b>	
2.	<b>Order of Business.</b>	
3.	<b>Declarations of Interest.</b>	
4.	<b>Minute and Action Tracker</b> (Pages 9 - 14)	30 mins
5.	<p><b>Risk Management in Services</b></p> <p>Presentation by Service Director Customer and Communities on the strategic and operational 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.)</p>	30 mins
6.	<p><b>Scottish Borders Council Draft Reports and Accounts 2017/18</b> (Pages 15 - 34)</p> <p>Presentation showing key highlights and various draft annual reports and accounts by Chief Financial Officer for consideration prior to their submission to the External Auditors:</p> <p>(a) <b>Scottish Borders Council; (To follow.)</b></p> <p>(b) <b>Scottish Borders Council Pension Fund;</b> (Pages 35 - 124)</p> <p>(c) <b>SBC Common Good Funds;</b> (Pages 125 - 146)</p> <p>(d) <b>SBC Charitable Trusts:</b></p> <p style="padding-left: 20px;">(i) SBC Welfare Trust; (Pages 147 - 164)</p>	30 mins

	<p>(ii) SBC Education Trust; (Pages 165 - 180)</p> <p>(iii) SBC Community Enhancement Trust; (Pages 181 - 198)</p> <p>(iv) Ormiston Institution; (Pages 199 - 214)</p> <p>(v) SBC Charity Funds; (Pages 215 - 232)</p> <p>(e) <b>Bridge Homes LLP.</b> (Pages 233 - 250)</p> <p>(f) <b>SB Supports LLP.</b> (Pages 251 - 278)</p> <p>(g) <b>SB Cares LLP.</b> (Pages 279 - 308)</p> <p><b>(Copies attached.)</b></p>	
7.	<p><b>External Audit Interim Management Report 2017/18</b> (Pages 309 - 316)</p> <p>Consider report by Audit Scotland on interim findings from their review of Key Systems of Internal Control in connection with their audit for the year ended 31 March 2018 and associated Management Action Plan. (Copy attached.)</p>	15 mins
8.	<p><b>National Performance Reports by Audit Scotland</b> (Pages 317 - 404)</p> <p>Note a list of recently published National Performance Reports by Audit Scotland of relevance to Local Government, designed to share best practice and lessons learned, with a proposal of their scheduled presentation to the Audit and Scrutiny Committee, and consider National Performance Reports on “Local Government Challenges and Performance 2018” and “Councils’ use of arm’s-length organisations”. (Copies attached.)</p>	15 mins
9.	<p><b>Progress on Implementation of Internal Audit Recommendations</b> (Pages 405 - 414)</p> <p>Consider a report by Chief Officer Audit &amp; Risk on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during previous years. (Copy attached)</p>	15 mins
10.	<p><b>Audit and Scrutiny Committee Annual Report 2017/18 and Annual Self-Evaluation</b> (Pages 415 - 432)</p> <p>Consider the Audit and Scrutiny Committee Annual Report 2017/18 on their work for the year in fulfilling their Audit remit based on their annual self-evaluation. (Copy attached.)</p>	10 mins
11.	<b>Any Other Items Previously Circulated.</b>	
12.	<b>Any Other Items which the Chairman Decides are Urgent.</b>	

## 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.

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**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

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**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 Thursday, 7 June 2018 at 10.00 am

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Present:- Councillors S Bell (Chairman), H Anderson, S Hamilton, N Richards, H Scott, and E Thornton-Nicol.  
Apologies:- Councillor K Chapman, J A Fullarton, R Tatler  
In Attendance:- Managing Director SB Cares, Chief Financial Officer (section 4-7), Clerk to the Council, Democratic Services Officer (J Turnbull).

1. **WELCOME AND INTRODUCTIONS**

The Chairman welcomed those present to the meeting.

2. **MINUTE**

There had been circulated copies of the Minute of 14 May 2018.

**DECISION**

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

3. **MATTERS ARISING FROM THE MINUTE**

With reference to paragraph 3(ii) of the Minute of the 14 May 2018, the Clerk to the Council advised that Scottish Borders Council's Scheme of Administration currently allowed for an overview, under the Major Contracts Governance Group, of any significant contracts and agreements with Trusts. It was therefore agreed to mark as completed, the Audit and Scrutiny Action Tracker entries on 15 January 2018 and 19 March 2018 relating to Live Borders and CGI respectively.

**DECISION**

**AGREED to mark as completed the Audit and Scrutiny Action Tracker entries on 15 January 2018 and 19 March 2018 relating to the Scheme of Administration in respect of Live Borders and CGI and the Major Contracts Governance Group.**

4. **SB CARES**

4.1 With reference to paragraph 2 of the Minute of 30 November 2017, the Chairman welcomed Mr Philip Barr - Managing Director SB Cares, Ms Lynn Mirley - SB Cares' Finance and Commercial Director, and Mr Paul Cathrow - SB Cares' Independent Living & Corporate Service Manager. Mr Barr explained that the SB Cares' Business Plan, which had been circulated with the agenda, detailed the strategic aims, priorities and key activities for 2017-2022, and his presentation would focus on SB Cares' current activities including recruitment, training, communications, quality of care and financial overview.

4.2 Mr Barr began by advising that SB Cares had established a comprehensive training programme to ensure the provision of high quality care, improved management and increased productivity and efficiency. Referring to recruitment, Mr Barr acknowledged there had been difficulties recruiting Home Carers, particularly in Tweeddale and Berwickshire. However, the introduction of a continual recruitment programme, together with regular, fortnightly induction training, had substantially improved the recruitment process. This had reduced pressures on staff and improved the quality of care. With regard to public relations, Mr Barr advised that SB Cares would be establishing a rolling

programme of communications to improve engagement with clients, staff and stakeholders. SB Cares also reported to the Major Contracts Governance Group and had carried out performance surveys with clients and clients' families.

- 4.3 Mr Barr then referred to SB Cares' Care Inspectorate score, highlighting the improvement since 2016. The highest Care Inspectorate score was six and 85% of SB Cares' scores had been four and above. However, the score had been affected by the necessity to introduce robust measures to one care home and improvements required in terms of leadership between managers, clients and front line staff. Mr Barr explained that SB Cares had developed action plans to implement the Care Inspectorate's recommendations which would improve recruitment, induction and training. Part of this was the introduction of a four days on/four days off shift pattern for Home Carers. There had also been improvements to the management structure with the appointment of a Service Manager Quality & Performance who would focus on improving quality across the service, performance management, implementing best practice models and identifying efficiencies. SB Cares was also working with Border College and had now established Senior Support Workers. These new positions would be client facing and enhance communication between Home Carers, management and clients as well as introducing career progression within the service. Other new appointments were the Independent Living & Corporate Services Manager (Mr Cathrow) and the Corporate & Commercial Services Team Leader, who would deliver a better return in terms of the commercial model.
- 4.4 Mr Barr concluded his presentation by discussing SB Cares' financial position for 2018/19 explaining that SB Cares did not make a profit and savings were invested back into the service. Cumulative savings were: £480k in 2015/16, £1.560m during 2016/17 and £2,505m during 2017/18. Savings had been realised through efficiencies, increasing productivity and eliminating unnecessary travel. There would, however, be pressure on savings in 2018/19 with Social Work's proposals to reduce or re-provision existing services which would impact on SB Cares' financial position.
- 4.5 Mr Cathrow then went on to discuss the delivery model for SB Cares' Commercial service. In the short term this would concentrate on sales of additional alarm monitoring services, including fire safety, falls prevention and dementia monitoring, for which there was a market. There would also be opportunities to sell equipment to support living independently at home, such as bath lifts and riser recliner chairs. Over the medium term SB Cares would explore expansion of lone worker monitoring, commercial disinfection services and provision of equipment and telecare to the third and private sectors. In the longer term they would consider delivery of paid for care services, including home care, respite and providing services through an accommodation based care model. Mr Barr added that the SB Cares' equipment was of a high standard and it was not their intention to compete based on price. There was an existing good relationship with SB Cares' partners in the NHS and Social Work which would enable equipment to be provided at short notice, and, going forward, it was anticipated that SB Cares could provide commercial packages to registered social landlords. In response to questions, Mr Cathrow confirmed there was a catalogue detailing all equipment available to buy, with a demonstration facility located at Tweedbank for clients. Although SB Cares did not have a marketing plan, he considered that once the success, or otherwise, of the commercial project was established, they would take this forward. With regard to Home Carers on a commercial basis, he considered that because of the rurality of the Scottish Borders, SB Cares would not have the capacity to offer this service. He further advised that, in the future it might be possible for SB Cares to engage occupational therapists, although he considered the provision of community physiotherapists would need further investigation and may not be viable.

## 5. PRIVATE BUSINESS

**AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business detailed**

**in the Appendix to the Minute on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.**

## **SUMMARY OF PRIVATE BUSINESS**

### **6. BORDERCARE ALARM SERVICE**

The Committee received an update on charges and savings from the Managing Director SB Cares.

## **PUBLIC BUSINESS**

### **7. SB CARES CONTINUED**

7.1 Further discussion followed and Members raised a number of questions. In response to a question as to why there was no increase in staffing expenditure shown in the Business Plan, Mr Barr would investigate and advise out with the meeting. However, he highlighted that any national increase in wages was covered by the Council. Moreover, SB Cares hoped to introduce changes to the home care assessment process. He explained that currently, client's assessments were carried out when the client was in hospital, at their most vulnerable, requiring a high level, home care package, which was then maintained. However, once the client's health improved the home care package could be reassessed with a subsequent reduction in staffing costs. Home Carers were best placed to request these reassessments and as training improved it was hoped to take this forward. In respect of the provision of a locality based service based on social work localities, Mr Barr explained that they worked closely with partners to deliver services on a locality basis. Ms Mirley confirmed that the east locality area covered Kelso and Duns and they did not envisage this changing. Mr Barr went on to advise that as the Scottish Borders was a popular place for retirement, the need for elderly care would therefore increase. Going forward, SB Cares might explore opportunities with registered social landlords for the provision of homes for the elderly, extra care housing, care homes in both the public and private sector and also provision in terms of town centre regeneration. The Chief Financial Officer added that Corporate Management Team had the previous day considered the Integrated Strategic Plan for Older People which looked at a range of provision of care including care homes, dementia units and specialist housing, while recognising the scale of demand. The Plan would be presented to Council in due course. With regard to the situation of Cordia (Services) LLP in Glasgow and if there could be a similar risk to SB Cares, Mr Robertson explained that the Cordia issue had arisen because they had tried to change staffing terms and conditions which had led them into problems with trade unions and political accountability, while SB Cares had been set up completely differently.

7.2 The Chairman thanked SB Cares officers for attending and for providing a copy of the SB Cares' Business Plan, in advance of the meeting, which had been informative. The presentation had been reassuring in terms of the progress being made in terms of SB Cares' management, training, recruitment and commercial developments.

## **DECISION**

**NOTED the presentation.**

### **8. SCRUTINY REVIEW PROGRAMME**

There had been circulated copies of the Scrutiny Work Programme for 2018/19. It was noted that after the summer recess, Scrutiny would review the delivery of the IT Strategy and Plan - the last review under the original programme. The Clerk to the Council, Ms Wilkinson, advised of the need to develop a programme for 2019/20, for approval by full Council. Following discussion, a number of areas for Review were suggested –

- Staff/Councillor guidance and training/re-fresher training on staff disciplinary procedures, including hearings, appeals and Industrial Tribunals (Cllr H Scott)
- Amey - Trunk Roads management (Cllr S Hamilton)

- Impact of Brexit on the Scottish Borders – mechanisms in place to monitor (Cllr H Anderson)
- ALEOS and Live Borders - performance monitoring process (Cllr H Anderson)
- Information coming before Councillors in the form of reports (Cllr S Bell)
- Co-wheels contract – impact and expansion (Cllr E Thornton-Nicol)

#### **DECISION**

- (a) **NOTED** the list of work undertaken by the Audit and Scrutiny Committee during 2018/19.
- (b) **AGREED:**
- (i) **that other Councillors be asked to submit areas for Scrutiny and a briefing on what constituted a strategic review be sent out as guidance; and**
  - (ii) **a draft Programme for Reviews for Scrutiny be presented to the Committee in September for consideration.**

9. **DATE OF NEXT MEETING**

The next meeting of the Audit and Scrutiny Committee was scheduled to take place on Tuesday, 26 June 2018.

**DECISION  
NOTED.**

*The meeting concluded at 11.55 am*

**SCOTTISH BORDERS COUNCIL**

**ACTION SHEET MASTER COPY**

**AUDIT and SCRUTINY COMMITTEE 2017/18**

Notes:-

1. Paragraphs Marked with a \* require full Council approval before action can be taken
2. Items for which no actions are required are not included

TITLE	DECISION REQUIRING ACTION	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	DATE EMAILED to Responsible Officer or Outcome
<b>28 June 2017</b>				
Reporting & Scrutiny: Why The Accounts Matter	<b>(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.</b>	Audit & Risk	Chief Officer Audit & Risk	Completed.
Scottish Borders Council's Local Code Of Corporate Governance	<p><b>(a) AGREED TO RECOMMEND that Scottish Borders Council:-</b></p> <p><b>(i) approves the revised Scottish Borders Council Local Code of Corporate Governance as detailed in Appendix 1 to the Minute; and</b></p> <p><b>(ii) approves the revised Scottish Borders Council Local Code of Corporate Governance being relaunched to ensure greater awareness across the Council.</b></p> <p><b>(b) AGREED:-</b></p> <p><b>(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</b></p> <p><b>(ii) that a presentation on the Scottish Borders Council Local Code of Corporate Governance be arranged for all Elected Members in due course.</b></p>	Audit & Risk	Chief Officer Audit & Risk	<p>Completed - Audit and Scrutiny Committee Minute 28 June 2017 presented to Council on 24 August 2017 with * items for approval. Completed – Council approved on 24 August 2017.</p> <p>Further reminder will be incorporated within Briefing Note on Governance Annual Assurance Process 2017/18 to CMT Spring18</p> <p>Presentation has been compiled though date tbc</p>

TITLE	DECISION REQUIRING ACTION	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	DATE EMAILED to Responsible Officer or Outcome
<b>28 August 2017</b>				
Call in: Union Chain Bridge	<p><b>(a) AGREED to RECOMMEND to the Executive Committee:</b></p> <p><b>(i) with regard to its decision on 15 August 2017 to increase the financial commitment to the Union Chain Bridge Project by £450k, the following wording be added ‘subject to the other sources of funding being available’;</b></p> <p><b>(ii) that a report be provided to the Executive Committee in April 2018 with the outcome of the HLF application, with options and timescales for the project with an enhanced focus on historical objectives, and should the bid fail, the report would contain fully costed alternatives, recognising the historical focus for the Bridge and its use as a road asset if possible;</b></p> <p><b>(iii) to instruct the Service Director Assets &amp; Infrastructure to write to Northumberland County Council confirming the governance arrangements for the project and that in future joint reports be prepared for both Councils for future decision making;</b></p> <p><b>(iv) that Members be given access to risk registers for capital projects, as appropriate; and</b></p>		Clerk to the Council/ Service Director Assets & Infrastructure.	<p>(i) Completed. Executive Committee of 5 September 2017, congratulated Audit and Scrutiny for investigating in a thorough manner and recommendations were approved in full.</p> <p>(ii) Report scheduled for Executive 21 May 2018.</p> <p>(iii) Completed 2.04.18</p> <p>(iv) Will be covered at 14 May 2018 meeting as part of the scheduled item on Risk Management Annual Report 2017/18, Risk Management Policy and Strategy during which management and Elected Members roles and responsibilities will be discussed.</p>

TITLE	DECISION REQUIRING ACTION	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	DATE EMAILED to Responsible Officer or Outcome
	(v) that Officers should be encouraged to seek other sources of funding for the Union Chain Bridge project.			Completed.
<b>25 September 2017</b>				
Risk Management in Services.	<b>AGREED to request the Chief Officer Audit and Risk circulate the schedule of forthcoming presentation to Members.</b>		Chief Officer Audit & Risk	Completed.
Internal Audit to August 2017	<b>AGREED to request the Service Director Assets and Infrastructure present a report to the Audit and Scrutiny Committee advising the corrective action in place to address the issues identified in the Fleet Management workforce plan.</b>		Service Director Assets & Infrastructure	Ongoing - report back to Audit on 26 June 2018 tbc.
<b>13 November 2017</b>				
External Membership of Audit and Scrutiny Committee	<b>DECISION AGREED that the appointment of external members to the Audit and Scrutiny Committee be considered at the next meeting of the Committee.</b>		Chief Officer Audit & Risk	Ongoing, recruitment soon to commence for appointment in October 2018.
Mid-term Treasury Management Report	<b>AGREED that the Mid-Year Treasury Management Report 2017/18, as detailed in the Appendix to the report, be presented to Council for approval of the revised indicators.</b>		Chief Financial Officer	Completed – 21 December 2017.
<b>15 January 2018</b>				
Internal Audit Work to December 2017	<b>AGREED to request the Chief Executive consult with LIVE Borders regarding a possible amendment to the Scheme of Administration to include LIVE Borders within the monitoring role of the Major Contracts Governance Group and following this consultation that a report be submitted to Council to approve this amendment.</b>		Clerk to the Council	Completed. The Scheme of Administration allows for an overview, under the Major Contracts Group, of any significant contracts and agreements with Trusts.
Audit of Housing Benefit – Risk Assessment Report	<b>AGREED TO RECOMMEND to the Executive Committee that they consider reviewing Key Performance Indicators for the Housing Benefit service as part of their regular review of performance.</b>		Clerk to the Council	Completed. Executive Committee approved on 14 February 2018.

TITLE	DECISION REQUIRING ACTION	DEPARTMENT/ SECTION	RESPONSIBLE OFFICER	DATE EMAILED to Responsible Officer or Outcome
Local Government in Scotland – Financial Overview 2016/17	<b>AGREED TO RECOMMEND to Council that the report be publicised to members and to invite them to utilise the Scrutiny Tool for Councillors to help them better understand the Council's financial position and to scrutinise financial performance.</b>		Clerk to the Council/Chief Officer Audit & Risk	Completed. Council 30 January 2018 / Audit and Scrutiny Committee 19 March 2018 carried out self- assessment using Scrutiny Tool
<b>19 March 2018</b>				
Internal Audit Work to February 2018	<b>AGREED</b> <b>(i) to request the Chief Executive consider a possible amendment to the Scheme of Administration to include CGI within the monitoring role of the Major Contracts Governance Group and following this consultation a report be submitted to Council to approve this amendment; and</b>  <b>(ii) that future meetings, considering Audit business, to include an action tracker, for information.</b>		Clerk to the Council	Completed. The Scheme of Administration allows for an overview, under the Major Contracts Group, of any significant contracts and agreements with Trusts.  Completed.
<b>19 April 2018</b>				
Community Access to Schools	<b>AGREED to request a scoping paper on community access to schools be brought back to Scrutiny Committee in the autumn. The paper, covering a three year period, to include details of which school were categorised as community schools, accessibility, letting, service arrangements and charging policy.</b>		Service Director Asset and Infrastructure	3 May 2018 Transferred to Scrutiny Work Programme.
Home Schooling	<b>AGREED to RECOMMEND that Executive (Education) Committee review home schooling on an annual basis.</b>  <b>AGREED to request a briefing for all Members on home schooling.</b>		Clerk to the Council  Service Director Children & Young People	3 May 2018  3 May 2018
<b>14 May 2018</b>				
Risk Management in Services	<b>AGREED that future reports in respect of Risk Registers would include the scoring for all Risks.</b>		Chief Officer Audit & Risk	
Risk Management	<b>AGREED that the Committee reconsider the risks associated</b>		Chief Officer	



Annual Report 2017/18	with major contracts in due course. <b>AGREED TO RECOMMEND the revised Risk Management Policy Statement and Strategy 2018 for Council approval.</b>		Audit & Risk Democratic Services Officer (Pauline Bolson)	Starred Item to Council on 28 June 2018
Counter Fraud Annual Report 2017/18	<b>AGREED TO RECOMMEND the revised Counter Fraud Policy Statement and Counter Fraud Strategy 2018 for Council approval</b>		Democratic Services Officer (Pauline Bolson)	Starred Item to Council on 28 June 2018
Internal Audit Annual Assurance Report 2017/18	<b>AGREED that the Internal Audit Annual Report for 2016/17 be published on the Council's website.</b>		Chief Officer Audit & Risk	
Annual Governance Statement 2017/18 and Local Code of Corporate Governance	<b>AGREED TO RECOMMEND the revised Local Code of Corporate Governance for Council approval.</b>		Democratic Services Officer (Pauline Bolson)	Starred Item to Council on 28 June 2018

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# **Draft Annual Accounts**

## **Scottish Borders Council**

### **2017/18**

**Audit & Scrutiny  
Committee**  
**26 June 2018**

# 2017/18 Highlights



Revenue Out-turn £1.029m Underspend

£12.286m Financial Plan Savings achieved (64% Permanently)

Net Assets excluding Pension Fund liabilities have increased by Net £38.6m on Balance Sheet

There has been a significant improvement in the Council's Balance Sheet which has been materially affected by Actuarial Gains on the Pension Fund Net Assets/Liabilities (£70.5m) and an overall surplus on the revaluation of Property, Plant & Equipment (£53.6m)

Capital Expenditure of £36m / Fixed Asset NBV of £536.5m

## Management Commentary

**Statutory Guidance  
Issued**

### **Strategic Management**

- Strategy & Objectives
- Business Model

### **Business Environment**

### **Business Performance**

- a Fair Review

## Sign Off Protocols

### **Unaudited Accounts**

Sign off by CFO

- Statement of Responsibilities
- Financial Statements are True & Fair

**By 30 June 2018**

### **Audit & Risk Committee responsibilities:**

- Consider unaudited accounts by 31 August
- Approve audited accounts prior to sign off

### **Audited Accounts**

Sign Off – various sections by  
Leader, Chief Executive and CFO  
by 30 September

## Publicising

Unaudited Accounts to be  
published on website when  
submitted to Auditor

### **Inspection:**

- Notice 18th June
- Period starts 2 July for 14  
working days

Audited Accounts published  
on website no later than **31  
October**

# Overview of Accounts Timetable

Out-turn Reports  
to Executive  
(prior to Statutory  
Accounting  
Adjustments)

Accounts  
prepared on  
basis of  
Year Ending

Audit Committee  
Scrutiny of Draft  
Accounts pre-  
submission

Audit  
Clearance  
Meeting

Audit  
Committee  
approve  
Audited  
Accounts  
for  
signature

Accounts  
Published  
on  
Web

31/3

30/4

31/5

26/6

31/7

31/8

28/9

31/10

Year end postings &  
technical adjustments

Audit Scotland Audit

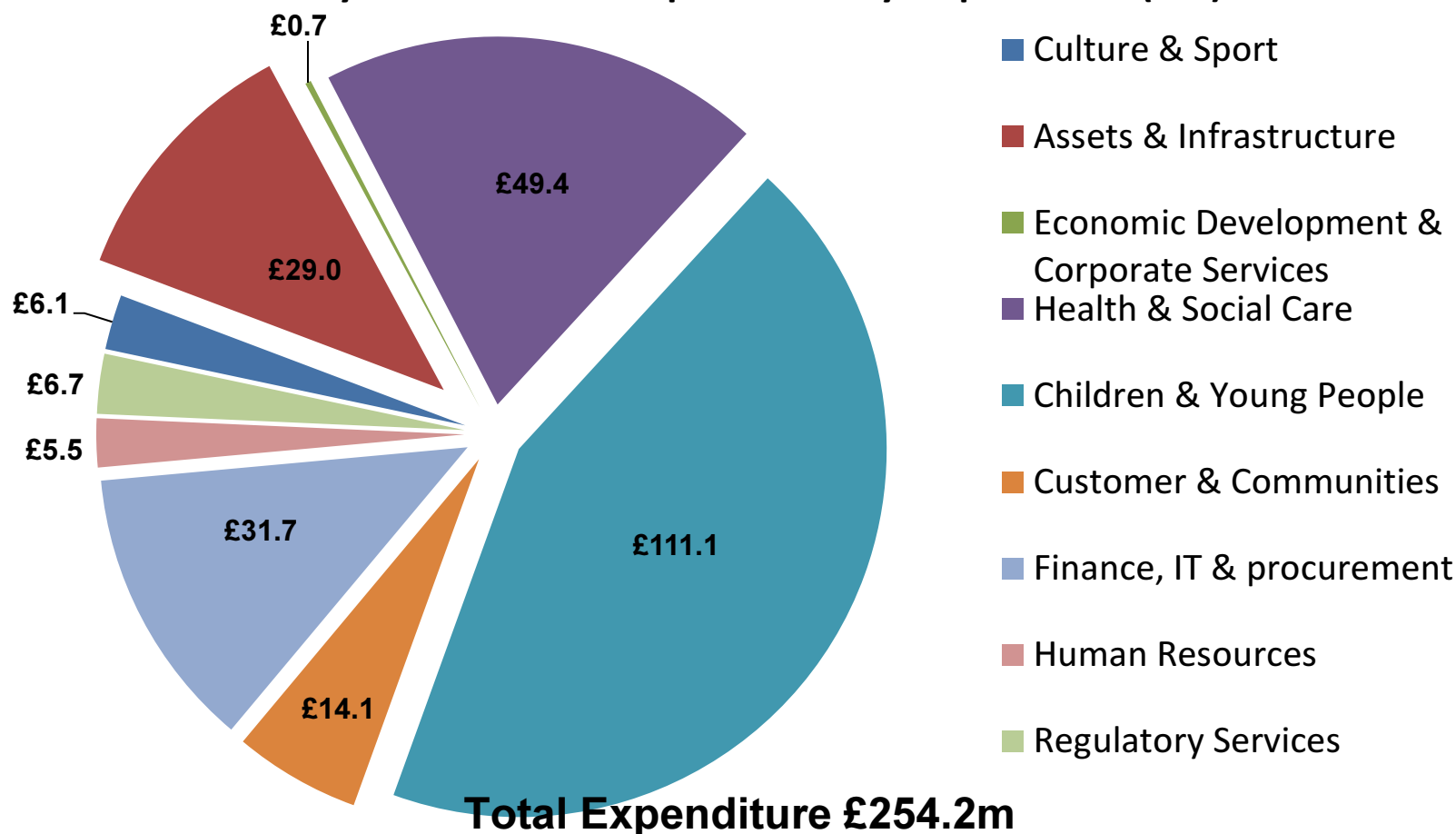
Public  
Inspection  
Period  
14 days  
from  
1 July

Audit  
report  
finalised

Council  
Report  
on final  
accounts

# Revenue Expenditure 2017/18

## Analysis of Revenue Expenditure by Department (£m)

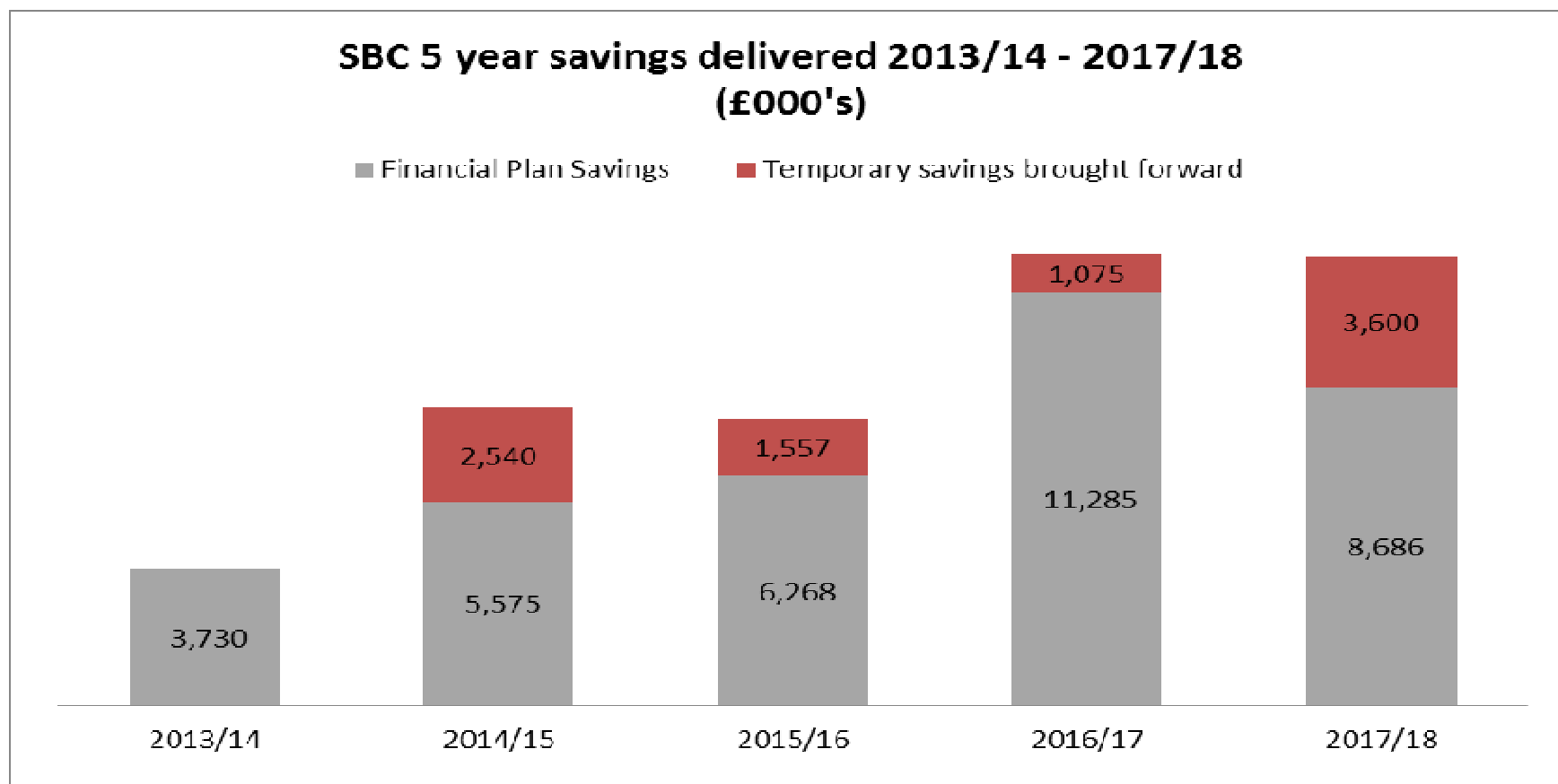


**Net Underspend £1.029m**

# Efficiency Savings

- £12.286m savings achieved

**64% (£7.8m) achieved on a permanent, recurring basis**





# Significant Trading Operations

## Note 8



- Requirement:
  - Surplus over rolling 3 year basis
- Cumulative net surplus over 3 years of £0.7m  
Yes still Significant Trading Operation

<b><i>SBC Contracts</i></b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>Cumulative over 3 years £m</b>	<b>Share of Trading Surplus %</b>
Internal Trading	0.286	0.237	0.080	0.603	86%
External Trading	0.098	0.091	(0.092)	0.097	14%
<b>Total</b>	<b>0.384</b>	<b>0.328</b>	<b>(0.012)</b>	<b>0.700</b>	

### 2017/18 Key Points:

- In 2017/18 turnover reduced by £3m, or 17%, to £15.3m.
- 48% of the total SBC Contracts turnover was generated by internal works.

# Statutory Accounting Adjustments



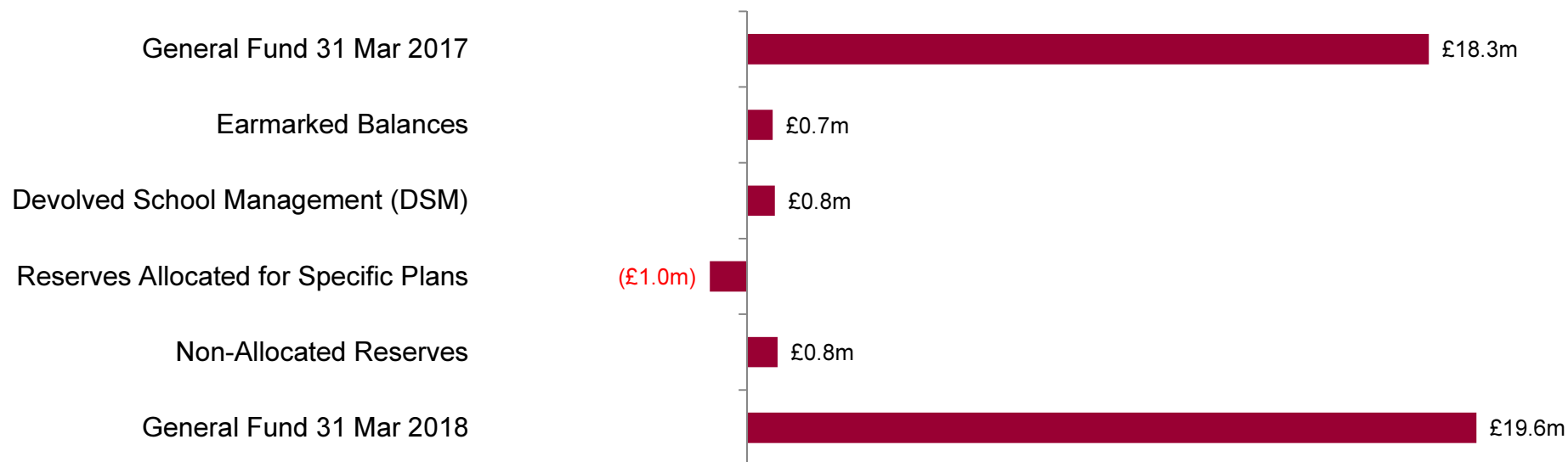
£m

<b>Net Surplus on Revenue Out-turn</b>	<b>(1.029)</b>
Net Statutory Adjustments to Net Cost of Services (inc. Depreciation/Impairment on Revaluation/ Loan Charges/PPP/Non Distributed Costs)	34.881
Other Asset (Gains)/Losses	(52.318)
Net Interest Costs	11.676
Net Changes on Pension Assets/Liabilities	(64.563)
Capital Grants & Contributions Applied (exc.Reserves used)	(22.323)
SBc Contracts External Operating Surplus	0.091
<b>Net Surplus -Total Comprehensive Income &amp; Expenditure</b> <i>(2016/17 Deficit = £69.1m)</i>	<b>(93.585)</b>

**The NET IMPACT on Council Balances of these Statutory Adjustments to the  
Outturn position is broadly NEUTRAL i.e. No Effect on the Council Taxpayer**

# General Fund Balances

## Note 31



Movement within the Allocated and Non-Allocated Reserves during 2017/18 comprised of:

***Reserves Allocated for Specific Plans - net effect of:***

Utilisation of IT transformation reserve	(£1.570m)
Increase to ER/VS reserve	£0.153m
Financial Plan adjustments	£0.494m
CFCRs applied to capital	(£0.068m)

***Non-Allocated Reserves***

2016/17 underspend transferred to Allocated Reserves	(£0.204m)
Increase from 2017/18 year end outturn	£1.029m

# Balance Sheet - Overview

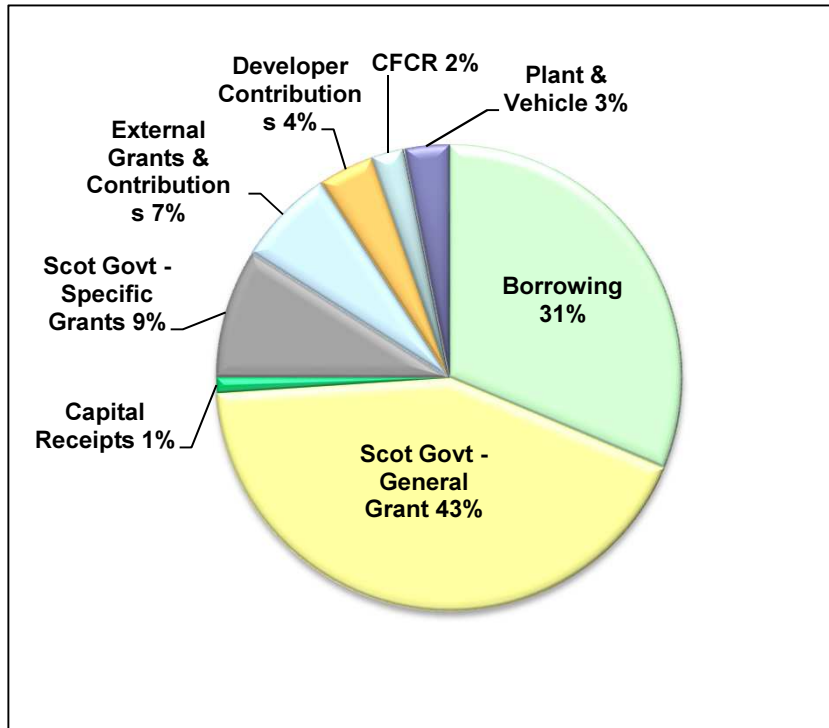
	Balance Sheet as at		Movement £m
	31 March 2017 £m	31 March 2018 £m	
Long Term Assets	486.3	542.3	56.0
Current Assets	45.8	53.1	7.3
Current Liabilities	(66.4)	(58.9)	7.5
Long Term Liabilities	(251.9)	(284.1)	(32.2)
<b>Net Assets Excluding Pensions Liabilities</b>	<b>213.8</b>	<b>252.4</b>	38.6
Pension Liability	(216.0)	(161.1)	54.9
<b>Net Assets/(Liabilities) including Pension Liabilities</b>	<b>(2.2)</b>	<b>91.3</b>	<b>93.5</b>

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.

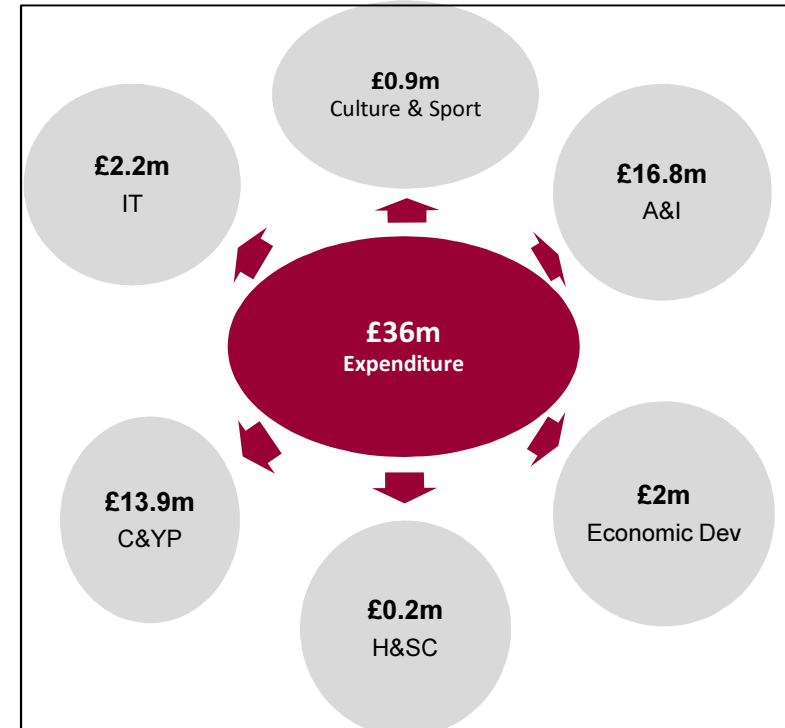
Included in Current Liabilities is a provision of £4m for decommissioning of the landfill sites.

# Capital Outturn 2017/18

## Actual Capital Financing



## Actual Capital Expenditure



**Total Expenditure £36m**

# Balance Sheet

## Assets (Notes 12, 13, 14 & 15)

	Balance Sheet as at		
	31 March 2017	31 March 2018	Movement
	£m	£m	£m
Property Plant and Equipment			
Other Land and Buildings	304.6	<b>378.6</b>	74.0
Vehicle, Plant, Furniture & Equipment	17.5	<b>16.4</b>	(1.1)
Infrastructure	123.6	<b>126.0</b>	2.4
Surplus Assets	3.8	<b>4.7</b>	0.9
Assets Under Construction	27.3	<b>9.8</b>	(17.5)
Heritage Assets	1.0	<b>1.0</b>	0.0
Intangible Assets	0.1	<b>0.0</b>	(0.1)
<b>Total PP&amp;E, Heritage &amp; Intangible Assets</b>	<b>477.9</b>	<b>536.5</b>	<b>58.6</b>

**This reflects movements in the valuation of assets, the disposal of assets through sales and the construction of new assets funded by capital expenditure**

## Subsidiaries

- SBC Common Good Funds (*Registered Charity*)
- SBC Trust Funds:
  - Registered Charities*
  - SBC Charity Funds (*76 funds*)
  - SBC Community Enhancement Trust
  - SBC Welfare Trust
  - SBC Education Trust
  - Ormiston Trust for Institute  
*and*
- 177 Non- Registered Trusts
- Bridge Homes LLP
- SBCares and SB Support LLP
- Live Borders

## Associates

- Jedburgh Leisure Facilities Trust

## Joint Ventures

- Scottish Borders Health and Social Care Partnership

# Common Good Funds & Charitable Trusts

## Common Good Funds

- 1 Charity
  - 1 Annual Charity Accounts
  - 10 Funds

Total Net Assets £13.5m  
Fixed Assets £10.5m  
Transfer of £38k assets into  
Melrose Common Good Fund  
Investments £2.7m  
Cash with SBC £0.2m

## Trust Funds

- 5 Charities
  - 5 Annual Charity Accounts
  - 177 Non-Registered Funds

Total Net Assets £3.8m  
Fixed Assets £1.7m  
*(mainly Ormiston & Chambers  
Institutions)*  
Investments £1.8m  
Cash with SBC £0.4m



## Balance Sheet

- **£5.9m Property (45 units)**
- **Funded by:**
  - £4.6m SBC Loan
  - £0.8m Affordable Housing Contribution
  - Property Revaluations

## Income & Expenditure

• <b>4th Year Trading Profit</b>	<b>£0.059m</b>
• <b>Income:</b>	
Rent	£0.213m
SBC Grant	£0.009m
• <b>Expenditure:</b>	
Loan Interest	£0.091m
SBC Support Costs (grant funded)	£0.009m
Property & Associated Costs	£0.055m
Audit & Professional Fees	£0.008m

## Balance Sheet

- £0.85 Rehabilitation Equipment

## Income & Expenditure

• <b>SBCares Surplus returned to SBC *</b>	<b>£0.465m</b>
• Undistributed surplus	£0.040m
• <b>Income:</b>	
Income for service provision from SBC/IJB	(£18.142m)
Alarm monitoring and other income	(£ 0.624m)
• <b>Expenditure:</b>	
Staff Costs	£15.884m
Travel & Transport Costs	£0.483m
Property & Energy Costs	£0.477m
Community Equipment Services Purchases	£0.410m
Catering Costs	£0.275m
Other Non-Staff Costs	£0.732m

\* This excludes statutory adjustments including the IAS19 Pension Fund adjustments

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## **DRAFT ANNUAL REPORT AND ACCOUNTS 2017/18**

**Report by Chief Financial Officer**

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### **AUDIT AND SCRUTINY COMMITTEE**

**26 June 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report provides the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Scottish Borders Council and group Annual Report and Accounts for the year ended 31 March 2018 prior to its submission to the External Auditors.**
- 1.2 The draft Report and Accounts are still subject to Statutory Audit, which will commence in July. Following the Audit process, the final Report and Accounts will be submitted to Council in September 2018.

#### **2 STATUS OF REPORT**

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) attached at Appendix 1 prior to External Audit Inspection by the statutory deadline of 30 June 2018.

#### **3 RECOMMENDATIONS**

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
- (a) Notes the Draft Annual Report and Accounts 2017/18 for Scottish Borders Council and associated Group Accounts; and**
  - (b) Supports its submission for review by the External Auditors, Audit Scotland for Scottish Borders Council, Pension Fund, Common Good and Trust Funds accounts, and to KPMG who continue to provide the external audit of the Council subsidiaries SBCares, SBSupports and Bridge Homes which are not registered charities.**

## 4 BACKGROUND

- 4.1 The Accounts summarise the financial transactions for the 2017/18 financial year and the balance sheet positions at the year-end of 31 March 2018. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code Of Practice 2017/18 supported by International Financial Reporting Standards (IFRS).
- 4.2 The Pension Fund Accounts are required to adhere to the Local Government Pension Scheme Amendment (Scotland) Regulations which specifies what must be contained in the Annual Report and Accounts.
- 4.3 All of the Common Good and Trust reports attached adhere to the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

## 5 ANNUAL REPORT AND ACCOUNTS 2017/18

- 5.1 The draft Annual Accounts for 2017/18 are attached at Appendices 1 - 6. These will be submitted to the External Auditors, Audit Scotland or KPMG as appropriate, for full audit by 30 June 2018:

- **Scottish Borders Council** Annual Accounts for year ending 31 March 2018 (Appendix 1)
- **Scottish Borders Council's Pension Fund** Annual Accounts for year ending 31 March 2018 (Appendix 2)
- **Scottish Borders Council Common Good Funds** (Charity SC031538) Annual Accounts for the year to 31 March 2018 (Appendix 3)
- **SBC Welfare Trust** (Charity SC044765) Annual Accounts for the year to 31 March 2018 (Appendix 4(i))
- **SBC Education Trust** (Charity SC044762) Annual Accounts for the year to 31 March 2018 (Appendix 4 (ii))
- **SBC Community Enhancement Trust** (Charity SC044764) Annual Accounts for the year to 31 March 2018 (Appendix 4 (iii))
- **Ormiston Trust for Institute Fund** (Charity SC019162) Annual Accounts for the year to 31 March 2018 (Appendix 4 (iv))
- **Scottish Borders Council Charity Funds'** (Charity SC043896) Annual Accounts for the year to 31 March 2018 (Appendix 4 (v))

- **Bridge Homes LLP** Annual Accounts for the year to 31 March 2018 (Appendix 5);
- **SB Supports** Annual Accounts for the year to 31 March 2018 (Appendix 6 (i))
- **SB Cares** Annual Accounts for the year to the 31 March 2018 (Appendix 6 (ii))

- 5.2 The above Accounts will be made available for public inspection for a 14 day period commencing 2 July 2018.
- 5.3 It should be noted that the Accounts remains draft and the conclusion of the year end work including the external audit may result in changes.
- 5.4 The Committee will receive a copy of the final reports at the end of the statutory external audit process to agree prior to their publication.
- 5.5 The key issues and highlights are reflected in a presentation elsewhere on the agenda.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no financial implications relating to this proposal.

### **6.2 Risk and Mitigations**

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

### **6.3 Equalities**

It is anticipated that there are no adverse equality implications.

### **6.4 Acting Sustainably**

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

### **6.5 Carbon Management**

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

### **6.6 Rural Proofing**

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

### **6.7 Changes to Scheme of Administration or Scheme of Delegation**

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

## **7 CONSULTATION**

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

**Approved by**

**David Robertson  
Chief Financial Officer**

**Signature .....**

**Author(s)**

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

**Background Papers:  
Previous Minute Reference:**

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

Contact us at Suzy Douglas, Financial Services Manager, Council Headquarters,  
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Tel: 01835 824000 X5881  
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# **SCOTTISH BORDERS COUNCIL PENSION FUND**

## **UNAUDITED**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

For the year to 31 March 2018

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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 2018. 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 2017/18.

### 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 local elections in May 2017 resulted in change of Membership for the Committee. The revised training policy required all Members of the Committee and Board to complete the Pension Regulator Trustee Toolkit, 80% of the members have completed this.

The Joint meetings of the Committee and Board continued during 2017/18 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

The value of the fund has continued to increase with strong returns coming from global equities. The fund has progressed well with the ongoing implementation of the

Strategic Asset Allocation approved in December 2016.

The overall performance of the Fund was 5.6% for 2017/18, outperforming the benchmark by 2.2% and increasing the value of the fund by £30.2m.

#### Rebalancing of assets

Following appointment of new asset managers in 2016/17 the transition of funding to the new portfolios has progressed with Long Lease Property Index Linked Gilts being fully invested and Private Credit 50% invested. Good progress has also been achieved in collaboration with Lothian Pension Fund for Infrastructure.

#### 2017 Triennial Revaluation

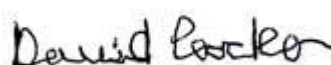
The three yearly valuation of the pension fund undertaken by the fund Actuary Barnet Waddingham at 31 March 2017 showed the fund was 114% funded. This was an increase on the 101% funding level returned at 31 March 2014.

#### Pensions Administration

A new website was launched providing information and guidance to Members of the fund and key stake holders.

### 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 Barnet Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



**Chairman, Pension Fund Committee  
Scottish Borders Council**

## MANAGEMENT COMMENTARY

### Management and Financial Performance

#### Scottish Borders Council Pension Fund

#### 2017/18 Key Highlights

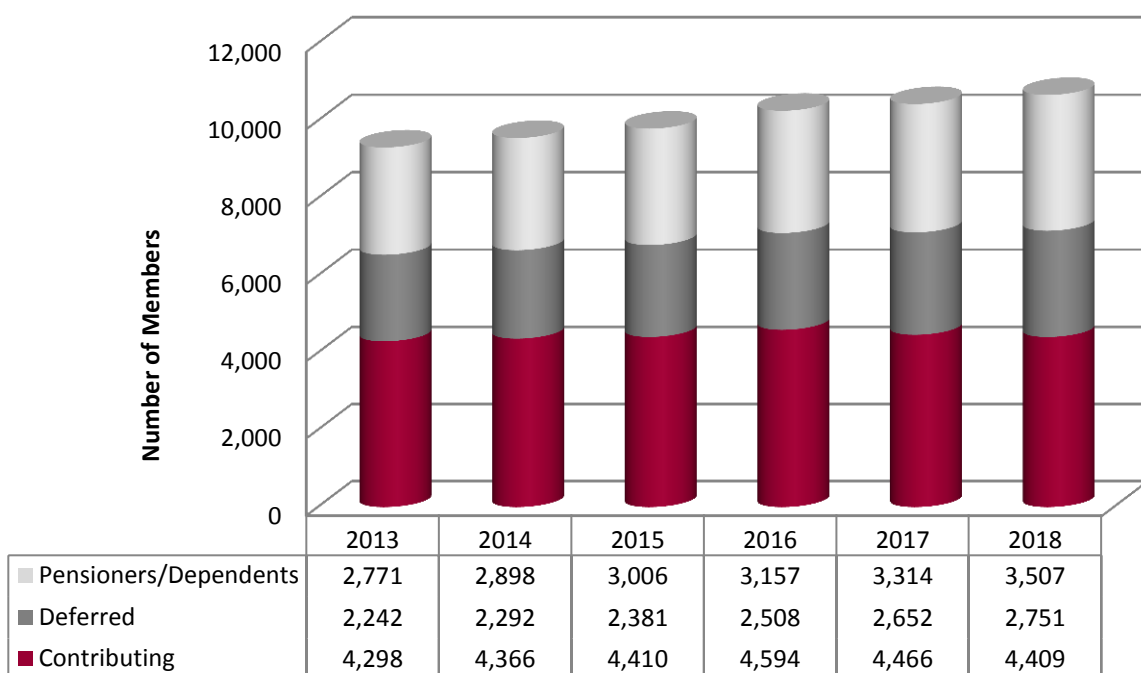
- £684.5m Net Assets, an increase of £30.2m on 2016/17
- Strong performance return of 5.6% for 2017/18 and 8.6% for the rolling 3 year period
- Fund continues to meet its strategic investment return benchmark.
- Continued sound governance of the Fund and good engagement of Members in the training programme
- 10,667 Members, an increase of 235 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 10,667 of which 4,409 are actively contributing and 3,507 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 2013 the total membership has increased by 1,356 members (a 15% increase overall). During this period the number of pensioners and their dependants has increased by 23%, and the number of active contributing members has increased by 3%. 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.

## **Financial Performance**

The Financial Statements for the Fund are set out from page 26.

Key Figures from these are set out below:

	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>
Net (Withdrawals) from Dealings with Members	<b>(2,229)</b>	<b>(2,579)</b>
Net Return on Investments	<b>118,277</b>	<b>41,486</b>
Net Increase/(decrease) in the Fund during the Year	<b>112,493</b>	<b>30,190</b>
Closing Net Assets of the Scheme	<b>654,393</b>	<b>684,583</b>

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 £30.2 in Net Assets***
- ***A Net Withdrawal position of £2.6m in relation to dealing with Fund Members***

The strong asset position, along with the 2017 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 withdrawals from the fund as a result of this legislation and continues 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 2017/18.

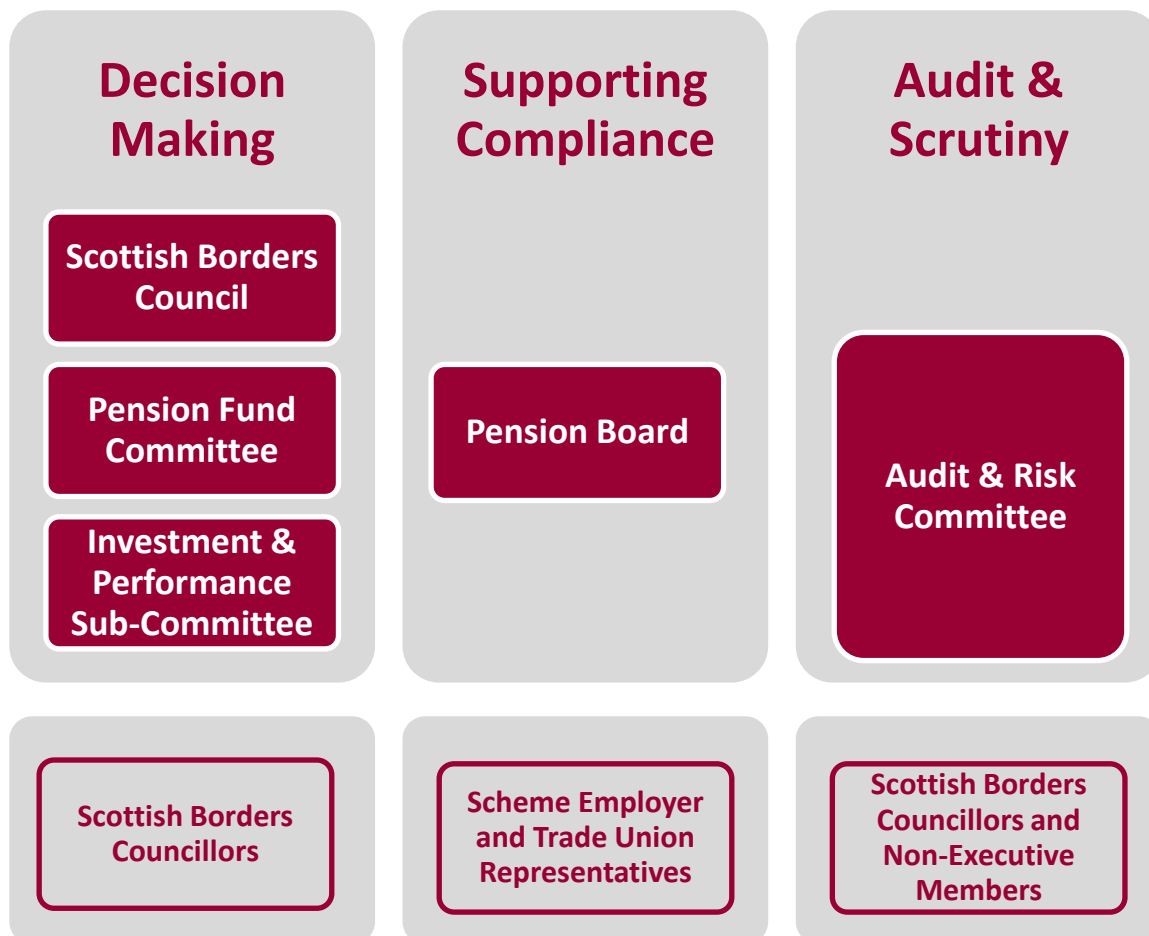
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2018 can be found on pages 17 to 23.

## Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 22 June 2017 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2017/18 training programme was developed. Training 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 2017/18 performance is set out below.

<i><b>Pension Fund Committee</b></i>	<b>Number of Members Attending</b>	
<b>% Attendance</b>	<b>Committee (Target – 2 meetings)</b>	<b>Training (Target – 2 sessions)</b>
100% (4 sessions or more)	4	4
75% (3 sessions)	3	3
50% (2 sessions)	-	-
≤ 25% (1 or no sessions)	-	-

<i><b>Pension Fund Board</b></i>	<b>Number of Members Attending</b>	
<b>% Attendance</b>	<b>Committee (Target – 2 meetings)</b>	<b>Training (Target – 2 sessions)</b>
100% (4 sessions or more)	1	-
75% (3 sessions)	4	2
50% (2 sessions)	1	4
≤ 25% (1 or no sessions)	2	2

The Policy 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 Committee fully met the training and attendance targets set in the Training Policy. 75% of the Pension Fund Board met the attendance target and 75% met the training target. The Training policy also for 2017/18 required all members of the Committee and Board to undertake the Pension Regulator Trustee Toolkit within 6 months of becoming a member. The toolkit has been completed by 71% of the Committee and 87.5% of the Board.

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 2017/18 – 2019/20 on 22 June 2017 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2017/18.

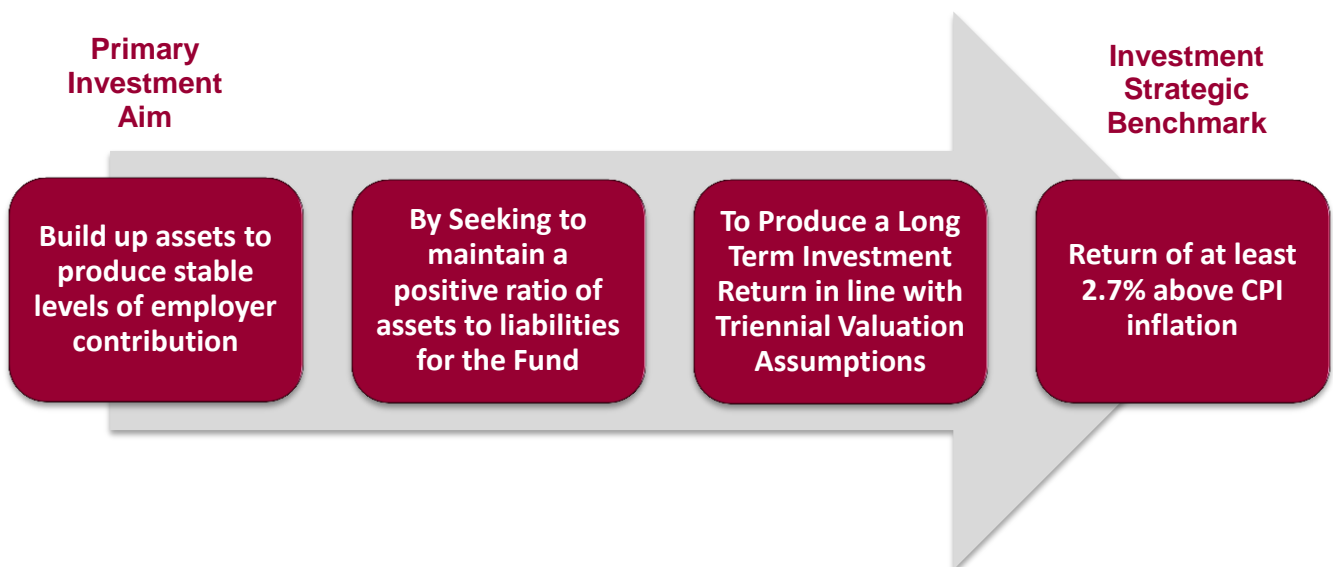
- ***2016/17 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications.***
- ***Completion of Communication Strategy and launch of Pension Fund website***
- ***Completion of 2017 Triennial Valuation***
- ***Full funding of Index Linked and Long Lease Property asset categories per revised Investment Strategy***
- ***Strong progress made in Private Credit and Infrastructure asset categories per revised Investment Strategy***

A full copy of the Business Plan can be found at [www.scotborders.gov.uk/pensions](http://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 current Investment Strategy and a copy of this document can be found at: [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions). An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy is summarised below:



The following table indicates the actual position at 31 March 2018 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/17 %	Asset Allocation at 31/3/18 %	Strategic Benchmark %
UK Equity	18.2	15.2	14.0
Global Equity	49.8	43.0	33.5
Bonds	9.7	15.2	15.0
Alternatives	16.9	11.9	17.5
Property	5.1	14.0	15.0
Infrastructure		0.6	5.0
Cash	0.3	0.1	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

As can be seen from the table above there has a reduction in the allocation to equities during the year. Despite this the Fund continues to run overweight in equities due to the continued growth of equities and the ongoing work to transfer funds into Infrastructure and Private Credit. It is anticipated the Private Credit allocation will be fully draw in 2018/19 and work continues in collaboration with Lothian Pension Fund to identify Infrastructure opportunities.

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

#### 2017/18 in Numbers

- Strong 3 year annualised investment performance of 8.6%, 1.4% above benchmark

- Strong 1 year performance to March 2018 with investment returns of 5.6% in the year compared to a benchmark of 3.4%

#### Key Successes 2017/18

### Investment Markets

During 2017/18 equities continued to experience strong levels of growth despite the 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 also provided positive growth. The factors affecting the markets were:

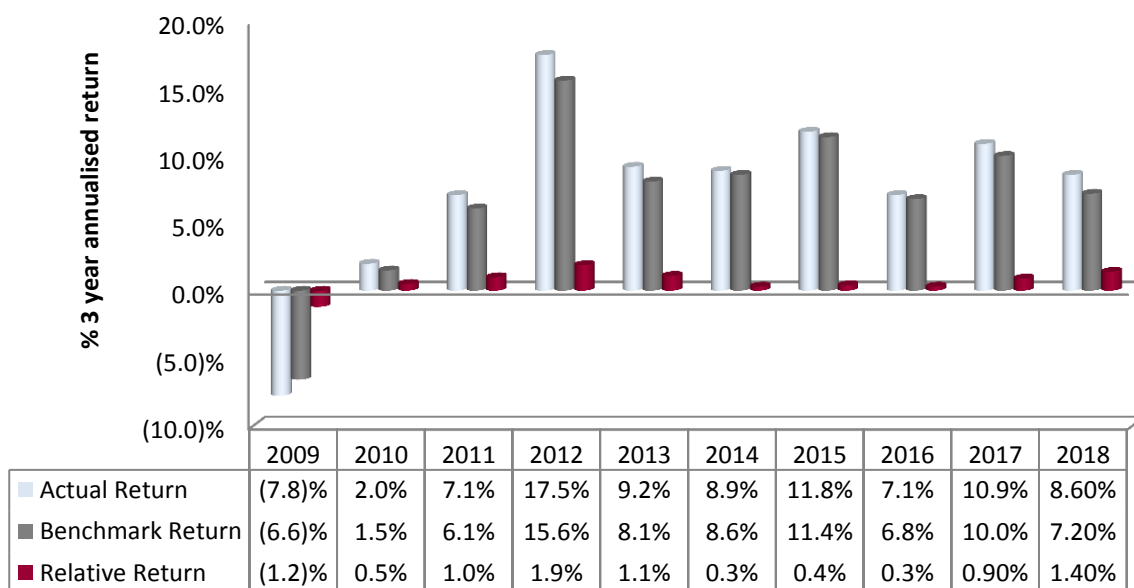
- Positive impact of tax reforms in US
- Uncertainty around impact of rising US inflation and increased protectionism.
- Uncertainty around BREXIT remains, markets have however remained positive over the period.
- Corporate bonds performed positively amidst a backdrop of improving global economic growth.
- Strength of sterling increased against most major currencies



## 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. On average the fund has returned relative out performance against bench mark of 0.66% per annum over the last 10 years.

### 3 Year Annualised Returns ending 31 March



The Fund achieved these favourable returns in 2017/18, with all Fund Managers producing a positive return. Global equities provided the highest out performance against benchmark, despite a dip in values in the final quarter of the year. Relative out performance of 1.4% was achieved for the year against the benchmark of 7.2%

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, their decision making processes and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

Return on Investment as at 31/3/2018	1 year rolling return		3 year rolling return	
	Fund %	Bench <sup>1</sup> %	Fund %	Bench <sup>1</sup> %
<b>Total Fund excluding Currency Hedging</b>	<b>5.6</b>	<b>3.4</b>	<b>8.6</b>	<b>7.2</b>
Global Equities including UK	5.5	2.1	11.8	9.4
UK Equities	3.3	1.2	6.6	5.9
UK Government Bonds	3.0	2.6	4.3	4.1
UK Corporate Bonds	1.2	0.6	4.2	3.4
Pooled Bonds	3.4	3.6	3.8	3.8
Property	9.7	8.7	7.3	7.6
Alternatives	2.3	4.3	2.7	4.5
Cash	-	-	-	-

**Key:**

<sup>1</sup> **Bench:** Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

UK Government Bonds allow for transition between UK Fixed Government Bonds and UK Index-Linked Government Bonds in September 2017

UK Corporate Bonds allows for disinvestment in September 2017 and represent a part-period return

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 Baillie Gifford in global equities, off-setting an under performance from Harris in global equities and LGT in Alternatives.

**Top 20 Direct Equity Holdings at 31 March 2018**

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Amazon	6.9	Alphabet Inc	2.8
Prudential	6.6	Richemont	2.8
Naspers	6.2	Mastercard Inc	2.7
Taiwan Semiconductor Manufact	4.6	Royal Caribbean Cruises	2.6
Moody's	4.2	BNP Paribas	2.5
Alibaba	3.6	Baidu	2.5
Anthem	3.4	Allianz	2.5
SAP	3.4	VISA Ince	2.4
AIA Group	3.1	CRH PLC	2.4
Daimler	2.8	Diageo	2.4

## MANAGEMENT COMMENTARY

### Funding Position

#### 2017 Valuation

- 114 % Funding Level for the Fund
- Stable Common Employer Contribution Rates at 18%

#### Triennial Valuation 2017

The Triennial Funding Valuation as at the March 2017 was undertaken during 2017 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2017 Valuation was a funding level of 114% an improvement in the position assessed at 2014 of 101%. The funding position equates to a surplus of over £80m and the advice of the actuary is that this surplus be used over time to offset increases in the primary employer's contribution rate of 20.6%. As a result there was no change in the overall Fund common employer contribution rate which remained at 18%, although some individual employer rates did change for specific circumstances.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2011 £m	2014 £m	2017 £m
Value of the Scheme Liabilities	(402.2)	(487.6)	(653.9)
Smoothed Asset Value	384.8	490.5	573.3
<b>Surplus/ (Deficit)</b>	<b>(17.4)</b>	<b>2.9</b>	<b>80.6</b>
<b>Funding Level</b>	<b>96%</b>	<b>101%</b>	<b>114%</b>

Note 26 to the Statement of Accounts on page 48, contains details of the outcome and assumptions used in the 2017 Valuation and the impact that it had on employer contribution rates.

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 2018

Note 27 to the Statement of Accounts on page 50, 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 £158.7m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 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](http://www.scotborders.gov.uk/pensions)

## MANAGEMENT COMMENTARY

### Pensions Administration Update

#### 2017/18 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

- Launch of Scottish Borders Council Pension Fund Website
- Processing of Pension payments from Business World implemented from 1st April 2017
- Successful training and development of new staff following staff retirements with the team
- All contributions received from all Employer Bodies on time

#### Key Successes 2017/18

### Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2017/18 and covered the requirements for the year end returns, for results of 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 Pension Fund 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 are enrolled as members of the national Teacher's 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 2018	Number of Contributors	Pensioners	Deferred Pensioners	Total
<b>Scheduled Bodies:</b>				
Scottish Borders Council	3,240	3,180	2,377	8,797
Borders College	165	62	83	310
Visit Scotland (Scottish Borders)	1	7	8	16
	<b>3,406</b>	<b>3,249</b>	<b>2,468</b>	<b>9,123</b>
<b>Active Admitted Bodies:</b>				
Scottish Borders Housing Association	88	90	71	249
LIVE Borders	166	41	45	252
SBCares	700	77	129	906
Jedburgh Leisure Facilities Trust	2	-	2	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited	4	6	4	14
CGI	43	1	1	45
	<b>1,003</b>	<b>217</b>	<b>259</b>	<b>1,479</b>
<b>Admitted Bodies with No Active Contributing Members:</b>				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
BC Consultants	-	15	16	31
Others	-	24	4	28
	-			
<b>Total</b>	<b>4,409</b>	<b>3,507</b>	<b>2,751</b>	<b>10,667</b>

## 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 a new website to provide enhanced information and 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 2017/18 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018 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 2017/18 and are comparable with the positive performance in the previous year. The target performance days for responding to general queries was 5 days and almost 100% of queries were replied to within this new target.

#### Service Standard - Estimates

Standard	Volume of Requests	Target Response	2017/18 % on Target
Estimates – Transfer In	39	20 Days	15.38%
Estimates – Transfer Out	98	20 Days	29.59%
Estimate – All Other	825	10 Days	89.82%
<b>Total Estimates</b>	<b>962</b>		

#### Service Standard – Query Response Turnaround

Standard	2016/17		2017/18	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	972	100%	1999	99.75%
Benefit Statement queries – within 20 working days	78	46%	67	100%
<b>Total</b>	<b>1,050</b>		<b>2,066</b>	

#### Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	Yes
Benefit Statements	by end of August	Yes

There was an improvement with all queries meeting the 20 day target for responding to the Annual Benefit Statement queries with 100% of queries answered with the required timescales.

## Employer Performance Measures

### Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	573	90%	6.8%
Retirement info – at least 20 working days before	237	90%	100%
Early leaver notification – within 20 working days	465	90%	9.9%
Death in service notification – within 10 working days	9	90%	100%

Scottish Borders Council implemented a new payroll system in April 2017 with a fully developed reporting solution for New Starters and Leavers not being fully developed until later in the year. As a result there has been a significant reduction in the percentage levels met for reporting these groups within the 20 working day deadline. The reporting of Retirements and Deaths in Service were not affected due to manual work around that was put in place. The Pensions Administration Team are assured that Scottish Borders Council now has a robust reporting mechanism in place for ensuring that all New Starters and Leavers will be reported within the timescales.

### Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Employer Body	Number of Monthly Payments Received		
	By Target Date (19 <sup>th</sup> 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	12	-	100%
LIVE Borders	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%
CGI	12	-	100%

All contribution payments were received on time during 2017/18. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

**Councillor David Parker**  
Chairman  
Pension Fund Committee

**Tracey Logan**  
Chief Executive  
Scottish Borders Council

**David Robertson**  
Chief Financial Officer  
Scottish Borders Council

XX September 2018

## GOVERNANCE

### Annual Governance Statement 2017/18

#### 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](http://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 2017/18, 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 2017/18 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) Review and update Environmental, Social and Governance section of Statement of Investment Principles.
- b) Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board

### **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, governance and risk management. 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 Policy and Compliance Statement, Annex 1 (pages 19 – 23).

**Councillor David Parker**  
**Chairman**  
**Pension Fund Committee**  
**xx September 2018**

**Tracey Logan**  
**Chief Executive**  
**Scottish Borders Council**

## GOVERNANCE

### Governance Compliance Statement 2017/18

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
<b>Structure</b>			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the <b>Pension Fund Committee</b> (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The <b>Pensions Board</b> (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The <b>Investment and Performance Sub-Committee</b> (the Sub-Committee) established under the Committee and has remit set out in the Scheme of Administration. This Sub-Committee</p> <p>Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p>

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval.  2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
<b>Committee Membership and Representation</b>			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings.  The Investment Sub-Committee has two non-voting members from the Board.  The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June ).  The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle		Full Compliance	Comments
<b>Selection and role of lay members</b>			
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. All new members of the Committee and Board are also required, within 6 months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
<b>Voting</b>			
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
<b>Training/Facility time/Expenses</b>			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
<b>Meetings (frequency/quorum)</b>			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every four months in between main joint Committee/Board meetings.
C	An administering authority who 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.
<b>Access</b>			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.

Principle		Full Compliance	Comments
<b>Scope</b>			
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.
<b>Publicity</b>			
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	Scottish Borders Council Pension Fund has a standalone website with all governance documents and fund information. A link is provided to Minutes and Public papers available via Council website.

## 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 2017 and subsequent reviews have followed the Council's cycle, as shown below:

Level of risk (Inherent risk score)	Reporting and Review Cycle
<b>RED -Very High (15-25)</b>	3 monthly reviews of action progress throughout the year
<b>AMBER – High (6-12)</b>	6 monthly review
<b>GREEN – Low (1-5)</b>	Annual review

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	6	-	-	7	3
Employer	-	4	-	-	1	3
Resource & Skill	-	5	-	-	2	3
Liquidity	2	4	-	-	3	3
Administrative	-	8	-	-	2	6
Regulatory & Compliance	3	2	-	1	2	2
Reputation	1	4	-	-	2	3
<b>Total Number of Risks</b>	<b>10</b>	<b>33</b>	<b>0</b>	<b>1</b>	<b>19</b>	<b>23</b>

The one risk that remains at red assessment i.e. high risk as at 31 March 2018 are:

- Legislation and other regulatory framework 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 Scottish Ministers, 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 2018, and of its income and expenditure for the year ended 31 March 2018.

**Councillor David Parker**  
Chairman  
Pension Fund Committee

**David Robertson (CPFA)**  
Chief Financial Officer  
Scottish Borders Council

**XX September 2018**



## STATEMENT OF ACCOUNTS 2017/18 FUND ACCOUNT

2016/17 £'000		2017/18 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme:</b>		
18,373	Contributions	19,365	8
1,074	Transfers in from other pension funds	245	9
<b>19,447</b>		<b>19,610</b>	
(19,986)	Benefits	(21,548)	10,11
(1,690)	Payments To And On Account Of Leavers	(641)	12
<b>(21,676)</b>		<b>(22,189)</b>	
<b>(2,229)</b>	<b>Net Additions/(Withdrawals) from Dealings with Members</b>	<b>(2,579)</b>	
<b>(3,555)</b>	<b>Management expenses</b>	<b>(8,717)</b>	13
	<b>Return on Investments:</b>		
8,292	Investment Income	8,195	14
110,098	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	33,717	15
(113)	Taxes on Income	(426)	
<b>118,277</b>	<b>Net Return on Investments</b>	<b>41,486</b>	
<b>112,493</b>	<b>Net Increase/(Decrease) in the Fund during the Year</b>	<b>30,190</b>	
541,900	Opening Net Assets of the Scheme	654,393	
<b>654,393</b>	<b>Closing Net Assets of the Scheme</b>	<b>684,583</b>	

## NET ASSETS STATEMENT as at 31 March

2017 £'000		2018 £'000	Notes
	<b>Investment Assets</b>		
257,512	Equities	236,163	17
	<b>Managed Funds:</b>		
32,169	Property	95,449	
105,284	Global Equities	86,029	
74,744	UK Equities- Passive	63,852	
20,379	Bonds	34,621	
42,814	Diversified Fixed Income	64,570	
110,322	Alternatives	81,494	
1,825	Open Ended Investment Contracts	1,650	
	Infrastructure	2,316	
9,665	Cash Deposits	17,804	
<b>653,207</b>	<b>Total Investment Assets</b>	<b>683,948</b>	
1,355	Other Investment Balances	991	
	<b>Current Assets &amp; Liabilities</b>		
251	Contributions due from Employers	204	
172	Other Current Assets	1,373	22
(2,099)	Other Current Liabilities	(1,933)	23
<b>1,186</b>		<b>(356)</b>	
<b>654,393</b>	<b>Net Assets</b>	<b>684,583</b>	

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 26.

The unaudited accounts were issued on 30 June 2018 and the audited accounts were authorised for issue on XX September 2018.

**David Robertson CPFA**  
**Chief Financial Officer**  
**XX September 2018**

## 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 2017/18 were based on the valuation undertaken as at the 31 March 2017 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 2017/18 ranged from 15.5% to 19.8%.

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 2018. *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
<b>Pension</b>	Each year worked is worth 1/80 <sup>th</sup> x final pensionable salary	Each year worked is worth 1/60 <sup>th</sup> x final pensionable salary
<b>Lump Sum</b>	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 became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. 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 2017/18 financial year and its position as at the 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (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 Schedule 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 basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 27, page 50).

### **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 2018 was £1.037m (2016/17 £1.037m). 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 2018 was £12.9m.

### Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Barnett Waddingham), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27 page 50. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5 PRIOR YEAR ADJUSTMENTS

No prior year adjustments have been made to the accounts.

## 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 21)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> <li>- A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m</li> <li>- A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m</li> <li>- A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and</li> <li>- A 0.25% increase in assumed life expectancy would increase the deficit by £3.9m</li> </ul>



		<i>Source – Triennial Valuation 2017</i>
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 £81.4m. 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 2018.

## 8 CONTRIBUTIONS RECEIVABLE

2016/17				2017/18		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,627	4,514	18,141	Normal	14,804	4,493	19,297
202	-	202	Special/Pension Fund Strain	36	-	36
-	30	30	Additional Voluntary	-	32	32
<b>13,829</b>	<b>4,544</b>	<b>18,373</b>	<b>Total</b>	<b>14,840</b>	<b>4,525</b>	<b>19,365</b>

## 9 TRANSFERS IN

There were no group transfers in to the scheme during 2017/18 or 2016/17 and the total of £0.245m (2016/17: 1.074m) represents the total of transfer values in respect of individual members joining the scheme.

## 10 BENEFITS PAYABLE

2016/17 £'000		2017/18 £'000
15,910	Pension Payments	16,794
4,076	Lump Sums/Death Benefits	4,754
<b>19,986</b>		<b>21,548</b>



## 11 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2016/17			2017/18	
Benefits Payable	Contributions Receivable		Benefits Payable	Contributions Receivable
£'000	£'000		£'000	£'000
18,868	13,684	Scottish Borders Council	20,105	13,317
275	657	Scheduled Bodies	295	746
843	4,032	Admitted Bodies	1,148	5,302
<b>19,986</b>	<b>18,373</b>	<b>Total</b>	<b>21,548</b>	<b>19,365</b>

## 12 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £'000		2017/18 £'000
88	Contributions Returned	64
1,602	Individual Transfers to Other schemes	577
<b>1,690</b>		<b>641</b>

## 13 MANAGEMENT EXPENSES

2016/17 £'000		2017/18 £'000
263	Administrative costs	292
3,051	Investment management expenses	8,192
241	Oversight and governance costs	233
<b>3,555</b>	<b>Total</b>	<b>8,717</b>

### 13(a) INVESTMENT MANAGEMENT EXPENSES

2016/17 £'000		2017/18 £'000
2,878	Management Fees	3,787
-	Performance Related Fees	75
59	Custody Costs	65
102	Transaction Costs	4,196
12	Other Fees	69
<b>3,051</b>	<b>Total</b>	<b>8,192</b>

The transactions cost include one-off costs of £3.4m incurred during the implementation of the long lease property portfolio.

## 14 INVESTMENT INCOME

2016/17 £'000		2017/18 £'000
7,142	Dividends from equities	4,459
1,133	Income from Pooled Investment Vehicles	3,709
17	Interest on Cash Deposits	27
<b>8,292</b>		<b>8,195</b>

## 15 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2016/17 £'000		2017/18 £'000	
17,514	Realised	79,724	
92,584	Unrealised	(46,007)	
<b>110,098</b>		<b>33,717</b>	

## 16 AUDITOR'S REMUNERATION

In 2017/18 the agreed audit fee for the year was £19,990. There were no other fees during 2017/18 paid to Audit Scotland, the Pension Fund's auditor.

## 17 ANALYSIS OF NET INVESTMENT ASSETS

Market Value at 31 March 2017			Market Value at 31 March 2018			
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
			<b>Investment Assets</b>			
53,293	204,219	<b>257,512</b>	Equities	36,673	199,491	<b>236,164</b>
			<b>Managed Funds:</b>			
32,169	-	<b>32,169</b>	Property	95,449	-	<b>95,449</b>
76,569	105,284	<b>181,853</b>	Equities	63,852	86,029	<b>149,881</b>
20,379	-	<b>20,379</b>	Bonds	34,622	-	<b>34,622</b>
-	42,814	<b>42,814</b>	Diversified Fixed Income	-	64,570	<b>64,570</b>
-	110,322	<b>110,322</b>	Alternatives	-	81,494	<b>81,494</b>
			Open Ended Investment	1,650		<b>1,650</b>
			Infrastructure	1,478	835	<b>2,313</b>
			Derivative Contracts		6	<b>6</b>
6,826	1,332	<b>8,158</b>	Cash Deposits	13,441	4,364	<b>17,805</b>
			Investment Income Due	318	928	<b>1,246</b>
			Amounts receivable for sales	-	481	<b>481</b>
<b>189,236</b>	<b>463,971</b>	<b>653,207</b>	<b>Total Investment Assets</b>	<b>247,483</b>	<b>438,198</b>	<b>685,681</b>
			<b>Investment Liabilities</b>			
-	-	-	Derivative	-	-	-
			Amounts payable for purchases		(742)	<b>(742)</b>
<b>189,236</b>	<b>463,971</b>	<b>653,207</b>	<b>Net Investment Assets</b>	<b>247,483</b>	<b>437,456</b>	<b>684,939</b>

### Alternative asset portfolio at 31 March 2018

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £49.6m at 31 March 2018, is allocated to the following asset classes: 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. £31.8m is also invested in Private Credit with Permira and Partners group.

### Investment Movement Reconciliation

The table below follows the guidance of the standard presentation for the movement in investments.

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value £'000
Equities	257,512	70,295	(113,166)	21,522	236,163
Pooled Investments	256,634	76,934	(56,422)	5,386	282,532
Pooled Property Investments	32,169	65,318	(1,500)	(538)	95,449
Private Equity		2,395	(42)	(40)	2,313
Diversified Alternatives	98,734	-	(50,000)	951	49,685
Derivative Contracts		72	(48)	(18)	6
	<b>645,049</b>	215,013	221,178	27,263	<b>666,148</b>
<b>Other Investment Balances</b>					
Cash Deposits	9,665			(408)	17,807
Amount receivable for sales	-			2	481
Investment Income due	1,355			-	1,246
Spot FX Contract	-			94	-
Amount Payable on Purchase	-			(4)	(743)
<b>Net Investments</b>	<b>656,069</b>			26,947	<b>684,939</b>

### Significant Transactions during the year:

Further implementation of the revised asset allocation approved in December 2016 has resulted in significant movements across the Fund, with the largest signal change being the 50% reduction in Diversified Alternatives and the £57m investment in Long Lease property and £30m in Private Credit.

### 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 2018. Each of the investments comprises units in a managed fund.

Value as at 31 March 2016	£'000
M&G Alpha Opportunities Fund	69,570
Morgan Stanley Global Brands Fund	86,029
Blackrock – Long Lease property	59,761
LGT Crown SBC Segregated Portfolio	49,685
UBS UK Passive Equities	63,853

## 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, Permira, Blackrock and LGT Capital Partners. The fund has also during 2017/18 made two investments in infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2018 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-17				31-Mar-18	
£'000	%			£'000	%
74,745	11.44	UBS	UK Equities - Passive	63,853	9.3
44,112	6.75	Baillie Gifford	UK Equities	39,975	5.8
151,003	23.12	Baillie Gifford	Global Equities	157,511	23.0
69,221	10.60	Harris	Global Equities	50,877	7.4
105,284	16.12	Morgan Stanley	Managed Fund - Global Equities	86,029	12.6
42,814	6.55	M&G	Managed Fund - Diversified Income	69,570	10.1
20,379	3.12	M&G	Managed Fund - Bonds	34,621	5.1
33,257	5.09	UBS	Property	36,617	5.4
		Blackrock	Managed Fund – Long Lease property	59,761	8.7
98,734	15.12	LGT	Managed Fund - Alternatives	49,685	7.3
11,588	1.77	Partners Group	Managed Fund – Private Credit	15,969	2.3
		Permira	Managed Fund – Private Credit	15,840	2.3
		KKR & Infared	Managed Fund – Infrastructure	3,811	0.6
2,070	0.32	Internal	Internally Managed Cash & Investments	819	0.1
<b>653,207</b>	<b>100.00</b>			<b>684,939</b>	<b>100.0</b>

The benchmarks and performance targets for each manager as at the 31 March 2018 are contained in Annex 1, Section 4.3, page 65 for information.

## Fund Performance

The total Fund return for the year was 5.65% with a relative return over benchmark of 2.2%.

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 1.4% 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 2018 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 equities and unit trusts. Prices are quoted at bid prices.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Values as at 31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
Designated as fair value through fund account	481,572	35,852	148,725	666,149
Loans & receivables	9,543	9,975	16	19,534
Financial liabilities at fair value through fund account	-	(744)	-	(744)
<b>Net Investment Assets</b>	<b>491,115</b>	<b>45,083</b>	<b>148,741</b>	<b>684,939</b>

Values as at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
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)
<b>Net Investment Assets</b>	<b>500,126</b>	<b>37,952</b>	<b>116,585</b>	<b>654,663</b>

## 19b FAIR VALUE TRANSFERS & RECONCILIATIONS

	Market Value 1 April 2017 £'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 2018 £'000
Private Credit	11,588	-	22,397	(3,239)	1,064	-	31,810
Alternatives	98,734	-	-	(50,000)	(8,898)	9,848	49,684
Property	3,171		63,893	-	(2,147)		64,918
Private Equity	3,054	(1,882)	-	-	(1,171)	-	1
Infrastructure			2,394		(39)	(1)	2,312
<b>Total</b>	<b>116,547</b>	<b>(1,882)</b>	<b>88,685</b>	<b>(53,239)</b>	<b>11,191</b>	<b>9,848</b>	<b>148,725</b>

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.

### SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having considered historical data and current market trends, and consulted with independent advisors, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Private Credit	4.6%	31,810	34,991	28,629
Alternatives	22.0%	49,684	60,616	38,754
Property	8.0%	64,918	70,111	59,725
Private Equity	12.0%	1	1	1
Infrastructure	12.0%	2,312	2,589	2,035
<b>Total</b>		<b>148,725</b>	<b>168,308</b>	<b>129,144</b>

## 20 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the account period.

31 March 2017				31 March 2018		
Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
			<b>Financial assets</b>			
257,512			Equities	236,163		
256,635			Pooled Investments	285,632		
32,169			Pooled Property Investments	95,449		
			Infrastructure	2,313		
98,733			Diversified Alternatives	49,685		
			Derivative Contract	8		
	9,665		Cash		17807	
	68		Other Investment balances	1246		
	104		Debtors	481		
<b>645,049</b>	<b>9,837</b>	<b>-</b>		<b>670,977</b>	<b>17,807</b>	
			<b>Financial Liabilities</b>			
			Derivative Contract	(2)		
		-	Other investment balances			
		2,099	Creditors			(743)
-	-	(2,099)		(2)	-	(743)
<b>645,048</b>	<b>9,837</b>	<b>(2,099)</b>	<b>Total</b>	<b>670,975</b>	<b>17,807</b>	<b>(743)</b>
	<b>652,786</b>				<b>688,039</b>	

### NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2017 £000		31 March 2018 £000
	<b>Financial assets</b>	
91,905	Designated at fair value through profit & loss	28,341
2,443	Loans & receivables	96
	<b>Financial Liabilities</b>	
-	Fair value through profit & Loss	(11)
-	Financial liabilities at amortised costs	(411)
<b>94,348</b>	<b>Total</b>	<b>28,015</b>

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 21 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 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	11.0
Cash	9.9
Property	14.5
Alternatives	22.0

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 18 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	103,878	20.2	124,844	82,913
Global Equities	294,417	20.5	354,773	234,062
UK Bonds	34,621	11.0	38,413	30,830
Property	96,378	9.9	105,919	86,837
Alternatives	154,876	14.3	177,097	132,654
Cash	768	0.1	776	761
<b>Total Assets Exc. Currency Hedge</b>	<b>684,939</b>		<b>801,822</b>	<b>568,057</b>

\*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 2017 and 31 March 2018 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 2017 £'000	At 31 March 2018 £'000
Cash and Cash Equivalents	9,665	17,807
Fixed Interest Securities	63,193	-
	<b>72,858</b>	<b>17,807</b>

### Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Value as at 31 Mar 18 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	17,807	178	(178)

### (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.

The following table summarises the Fund's currency exposure at 31 March 2018:

Currency exposure by asset type	As 31 March 2017 £'000	As 31 March 2018 £'000
Overseas Equities	309,504	285,519
Diversified Bonds	42,814	64,570
Alternatives	110,322	49,685
Cash - Foreign Currency	1,332	4,363
<b>Total</b>	<b>463,972</b>	<b>404,137</b>

## 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 18 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	752	11.92	842	663
Brazilian Real	2,794	17.46	3,282	2,306
Canadian Dollar	1,657	10.18	1,826	1,489
Chinese Yuan	835	10.35	922	749
Danish Krone	1,939	9.27	2,119	1,760
EURO *	42,363	9.30	46,302	38,423
Hong Kong Dollar	4,239	10.34	4,677	3,800
Japanese Yen *	13,066	14.89	15,011	11,121
Mexican Peso	1,171	13.75	1,332	1,010
Norwegian Krone	1,282	11.62	1,430	1,133
South African Rand	6,799	17.13	7,964	5,635
South Korean Won	42	14.18	48	36
Swedish Krona	2,867	11.48	3,196	2,538
Swiss Franc	13,364	12.17	14,990	11,737
Taiwan Dollar	434	10.04	478	391
US Dollar	153,533	10.62	169,840	137,226
<b>Total Currency *</b>	<b>247,137</b>		<b>274,259</b>	<b>220,017</b>

\* 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 2018, including current account cash, was £1.98m (31 March 2017: £3.53m). This was held with the following institutions:

	Rating	Balance at 31 March 2017 £'000	Balance at 31 March 2018 £'000
<b>Money Market Accounts</b>			
Aberdeen	AAA	505	5
Standard Life	AAA	505	5
Blackrock	AAA	505	5
Federated	AAA	505	5
<b>Bank Current Accounts</b>			
Bank of Scotland	A	1,507	620
<b>Total</b>		<b>3,527</b>	<b>640</b>

### 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 2018, 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.

## 22 CURRENT ASSETS

Current Assets	As 31 March 2017 £'000	As 31 March 2018 £'000
Transfer value receivable (joiners)	68	53
Sundry Debtors	104	1,320
Prepayments	-	-
<b>Total</b>	<b>172</b>	<b>1,373</b>

Analysis of Debtors	As 31 March 2017 £'000	As 31 March 2018 £'000
Central government bodies	17	21
Other local authorities	132	1,086
NHS bodies	-	-
Public corporation & trading funds	-	-
Other entities & individuals	23	266
<b>Total</b>	<b>172</b>	<b>1,373</b>

## 23 CURRENT LIABILITIES

Current Liabilities	As 31 March 2017 £'000	As 31 March 2018 £'000
Transfer value receivable (joiners)	497	93
Sundry Creditors	1,138	1,500
Benefits payable	464	340
<b>Total</b>	<b>2,099</b>	<b>1,933</b>

Analysis of Creditors	As 31 March 2017 £'000	As 31 March 2018 £'000
Central government bodies	-	-
Other local authorities	211	75
NHS bodies	12	-
Public corporation & trading funds	-	-
Other entities & individuals	1,876	2,098
<b>Total</b>	<b>2,099</b>	<b>1,933</b>

## 24 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.98m (2017: £2.86m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2017: £0.006m). The Council charged the Pension Fund £0.359m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2017 £'000	2018 £'000
Due (to)/from Scottish Borders Council	104	1,037

### Governance

All members of the Pension Fund Committee were active member of the pension fund during 2017/18. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

## 25 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 2017 £000's		31 March 2018 £000's
86	Short-term benefits	87
-	Post-employment benefits	-
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
<b>88</b>	<b>Total</b>	<b>89</b>

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 10% of the above post.

## 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 14 June 2018 and a copy of this document can be found at:

[www.scotborders.gov.uk/pensions](http://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, with consideration of the long-term cost efficiency objective;
- ensure effective and efficient management of employers' liabilities; and
- allow the return from investments to be maximized within reasonable risk parameters

#### Funding Strategy (Section 5, page 5 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;

- Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and
- As stable an employer contribution rate as is practical.

### **2017 Actuarial Valuation**

The 2017 Actuarial Valuation was undertaken for the Fund as at 31 March 2017 (the Executive report can be seen in Annex 2 with the full report available on the Scottish Borders Council Pension Fund website) and was completed during the financial year 2017/18 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

The funding level of the Fund as at the 31 March 2017 was 114%, compared to the 31 March 2014 valuation of 101% and this corresponded to a surplus of £80.69m. The following table summarises the funding position.

<b>Past Service Funding Position – Scottish Borders Council Pension Fund</b>		
<b>Valuation Date as at 31 March</b>	<b>2014 £m</b>	<b>2017 £m</b>
Value of the Scheme Liabilities	(487.6)	(653.9)
Smoothed Asset Value	490.5	573.3
<b>Surplus/ (Deficit)</b>	<b>2.9</b>	<b>80.6</b>
<b>Funding Level</b>	<b>101%</b>	<b>114%</b>

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 31<sup>st</sup> March 2020.

### **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 2017) were:

	2014 Valuation		2017 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities	5.9	2.6	7.5	4.7
Absolute return funds	5.9	2.6	5.5	2.7
Gilts	3.6	-	1.9	-0.9
Bonds	4.1	0.5	2.6	-0.2
Property	5.5	1.9	6.3	3.5
Multi Asset Fund/Infrastructure	5.9	2.3	7.2	4.4
Retail Price Inflation (RPI)	3.6	-	3.7	-
Pay Increases – Long Term	4.6	2.0	3.8	1.0
Pension Increases	2.8	(0.8)	2.8	0.0
Discount Rate	5.5	1.9	5.0	2.2

### Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2016 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 2017 Actuarial Valuation, the actuary certified the primary rate at 20.6%, however in agreement with the Actuary a secondary rate of -2.6% has been deducted to allow the common rate of contribution as 18% of payroll for the next three years. The secondary rate will reduce the surplus of £80.6m over 53 years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2017/18	2018/19
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	15.5%	-
Scottish Borders Housing Association – Individual	19.0%	20.3%
CGI	19.8%	21.1%

\* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council Culture services into LIVE Borders in 2016 however resulted in LIVE Borders revised rate of 18%. Following the 2017 valuation Jedburgh Leisure Trust also returned to the Common Pool. This leaves SBHA and CGI out with the Common Pool due to their closed status.



## 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 2016 £m	31 March 2017 £m	31 March 2018 £m
Present value of the defined benefit obligations	(696.9)	<b>(906.9)</b>	<b>(843.9)</b>
Fair Value of Fund Assets* (bid value)	542.7	<b>652.7</b>	<b>685.2</b>
Net Asset/(Liability)	(154.2)	<b>(254.2)</b>	<b>(158.7)</b>

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 2016	At 31 March 2017	At 31 March 2018
	% p.a.	% p.a.	% p.a.
Discount Rate	3.7	2.7	<b>2.55</b>
Retail Price Inflation (RPI)	3.3	2.7	<b>2.3</b>
Pay Increases – Long Term	4.2	3.7	<b>3.3</b>
Pension Increases	2.4	2.7	<b>2.3</b>

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 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.

## 27 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.

## **28 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**

**To be added following Audit**









# **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 managed<sup>1</sup>
  - 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 Lending<sup>1</sup>
- 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.<sup>1</sup>

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<sup>1</sup> “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 Statement<sup>22</sup>and
  - The Governance Policy and Compliance Statement<sup>2</sup>.
- 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.

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<sup>2</sup> Funding Strategy Statement and Governance Policy and Compliance Statement can be found at [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions)

### 3. The Fund's Objectives

#### Primary Aim

3.1 The primary aim of the Fund is:

*“To provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death before or after retirement, on a defined benefits basis.”*

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

#### Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

## 4. Investment Policy

### Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,652 deferred members which are currently neither contributing nor receiving – as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2013, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2016 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

### Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Harris Associates (Harris), Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate.
- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2015.

## **Risk Measurement and Management**

### **4.19 *Asset Allocation***

- i The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.
- iii The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2016 by the Fund's investment consultant, it is envisaged that this will next be done during 2018/19 following the actuarial valuation as at 31 March 2017.
- v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

### **4.20 *Investment Managers***

- i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

#### 4.21 *Proper Advice*

- i The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	KPMG
Actuaries	Barnett Waddingham

#### 4.22 *Concentration Risk and Diversification*

- i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- iii This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

#### 4.23 *Transition Management Arrangements*

- i A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- ii The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

#### 4.24 *Currency Risk*

- i During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors the overseas currency exposure will act as an offset against losses in severely stressed market environments.

#### 4.25 *Safe Keeping of Assets*

- i The services of a global custodian, currently Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- iv Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

#### 4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- i The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- iii A small proportion of the Fund's investments, in particular Property and future investments in other alternative assets would take longer to be realised.

## 5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the

stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

## 6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.
- 6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.7 To demonstrate their commitment to ESG Fund Managers are encouraged to sign the United Nations Principles of Responsible Investment (UNPRI) Stewardship Code.
- 6.8 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction
- 6.9 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

## 7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to

employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

## 8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- i Effective Decision Making
  - ii Clear Objectives
  - iii Risk and Liabilities
  - iv Performance Assessment
  - v Responsible Ownership
  - vi Transparency and Reporting
- 8.5 **Appendix 5** contains this statement of compliance.



## Appendix 1

### Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

## Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- d) Reports produced for the Pension Fund Committee;
- e) Seek reports from the Scheme Manager on any aspect of the Fund;
- f) Monitor investments and the investment principles/strategy/guidance;
- g) The Annual Report and Accounts for the Fund;
- h) External voting and engagement provisions in relation to investments;
- i) Pension Fund Administrative Strategy and associated performance;
- j) Actuarial reports and valuations;
- k) Funding Strategy Statement and associated policy; and
- l) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

## Appendix 3

### Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range / Tolerance %
<b>UK Equity</b>	UBS <sup>1</sup>	9.0%	
	Baillie Gifford	5.0%	
	<b>Sub Total</b>	<b>14.0%</b>	<b>12% - 16%</b>
<b>Global Equity</b>	Harries Associates	7.0%	
	Baillie Gifford	16.0%	
	Morgan Stanley	10.5%	
	<b>Sub Total</b>	<b>33.5%</b>	<b>30% - 37%</b>
<b>Total Equity</b>		<b>47.5%</b>	<b>42% - 53%</b>
<b>Bonds</b>			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts		5.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Alternatives <sup>2</sup></b>			
Multi-Asset Alternatives Fund	LGT Partners	7.5%	
Private Credit	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure		5.0%	
	<b>Total</b>	<b>22.5%</b>	<b>20% - 25%</b>
<b>Property</b>			
Balanced Property	UBS	5.0%	
Long Lease Property	Blackrock	10.0%	
	<b>Total</b>	<b>15.0%</b>	<b>12% - 17%</b>
<b>Cash</b>		0.0%	
<b>Total</b>		<b>100.0%</b>	

**Note:**

<sup>1</sup> This is a passive investment mandate which requires the FTSE All Share index to be tracked.

<sup>2</sup> Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

## Appendix 4

### Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
<b>UK Equity</b>	UBS	Benchmark Return	+0.0%	FTSE All-Share Index
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
<b>Global Equity</b>	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
<b>Bonds</b>				
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
<b>Multi-Asset Alternatives Fund</b>	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
<b>Property</b>	UBS	Benchmark Return	+0.75%	IPD UK PPFI All Balanced Funds Index
	Blackrock	Benchmark Return	+2.5%	RPI

## Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

Principle	Best Practice Guidance	Fund's Current Status
<p><b>1. Effective Decision-Making</b></p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul> <p><b>1. Effective Decision-Making (contd.)</b></p>	<ul style="list-style-type: none"> <li>• The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity.</li> <li>• The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified.</li> <li>• The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making.</li> <li>• There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions.</li> <li>• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.</li> </ul>	<p><b>Full Compliance</b></p> <ul style="list-style-type: none"> <li>• The Fund has a designated committee – the Committee - with the experience and skills to take decisions.</li> <li>• The Committee's terms of reference is contained within the Scheme of Administration for the Council.</li> <li>• The Committee receives training either during meetings or at specific training sessions, including on investment issues.</li> <li>• Induction training is provided for new Members and Officers.</li> <li>• The Committee has an appointed investment consultant to provide specific investment advice.</li> <li>• The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee</li> <li>• 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.</li> <li>• The Committee carry out regular reviews of the Fund and compliance with regulations.</li> <li>• The Investment Consultant,</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> <li>• The committee should obtain proper advice at reasonable intervals from suitably qualified persons.</li> <li>• The Chief Financial Officer should be given responsibility for developing a training plan for committee members.</li> <li>• A business plan should be in place which should include milestones and should review level of resources needed.</li> <li>• Members allowances should be published and reviewed regularly.</li> <li>• Meeting papers should be clear and circulated sufficiently in advance of the meetings.</li> </ul>	<p>Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.</p> <ul style="list-style-type: none"> <li>• The Committee's legal advisers and any other relevant parties review any new investment contracts put in place.</li> <li>• There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members.</li> <li>• Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer</li> <li>• A business plan was agreed by the Committee on 16 June 2016</li> <li>• Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007.</li> <li>• Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>2. Clear Objectives</b></p> <ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The desirability of asset liability modelling should be considered.</li> <li>Proper advice should be taken where appropriate.</li> <li>Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return.</li> <li>Peer group benchmarks should be avoided.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation.</li> <li>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.</li> <li>The Committee regularly reviews the investment</li> </ul>



Principle	Best Practice Guidance	Fund's Current Status
<p><b>2. Clear Objectives (contd)</b></p>	<ul style="list-style-type: none"> <li>• Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available.</li> <li>• 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.</li> <li>• The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established.</li> <li>• Transaction and transition costs should be fully understood.</li> </ul>	<p>structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored.</li> <li>• As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities</b></p> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<ul style="list-style-type: none"> <li>The committee should have a clear policy on willingness to accept underperformance due to market conditions.</li> <li>Acceptable tolerances from market index benchmarks returns should be stated.</li> <li>Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices.</li> <li>Overall fund objectives should be expressed in terms which relate to the liabilities.</li> <li>The committee must receive an assessment of the risks associated with their liabilities, valuation and management.</li> <li>The annual report should include an overall risk assessment.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The overall Fund investment objective is expressed in terms which relate to the liabilities.</li> <li>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..</li> <li>The annual report includes a Risk Management Statement</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>3. Risk and Liabilities (contd)</b></p>	<ul style="list-style-type: none"> <li>• The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer.</li> <li>• The committee should ensure the investment strategy is consistent with the scheme employers ability to pay.</li> </ul>	<ul style="list-style-type: none"> <li>• The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls.</li> <li>• The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>4. Performance Assessment</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• 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.</li> </ul>	<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales.</li> <li>• Constraints on active managers should not be overly narrow or overly wide.</li> <li>• Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods.</li> <li>• Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency.</li> </ul> <p><b>Advisers</b></p> <ul style="list-style-type: none"> <li>• Assessment should take account of the extent of decisions delegated.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate.</li> <li>• Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target.</li> <li>• The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.</li> <li>• The performance of the investment managers is measured quarterly by an independent performance monitoring company.</li> <li>• A comprehensive quarterly performance report is presented to the Committee.</li> <li>• Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports.</li> <li>• 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.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>4. Performance Assessment (contd)</b></p>	<ul style="list-style-type: none"> <li>A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors.</li> </ul> <p><b>Decision making bodies</b></p> <ul style="list-style-type: none"> <li>The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.</li> </ul>	<ul style="list-style-type: none"> <li>Factors such as past performance and price are taken into account when re-tendering for external advisers.</li> <li>Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.</li> </ul>

Principle	Best Practice Guidance	Fund's Current Status
<p><b>5. Responsible Ownership</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</li> <li>• includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report.</li> <li>• 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.</li> <li>• The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.</li> <li>• The committee should ensure its policies are not overridden by an investment manager's general policies.</li> <li>• The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants.</li> <li>• The ISC's Statement of Principles on the</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership.</li> <li>• Voting on underlying shareholdings is delegated to the fund manager.</li> <li>• Details of the investment manager's house strategy are requested from the manager.</li> <li>• Feedback on interventions to be provided during meeting with manager (minimum of once per annum).</li> <li>• The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.</li> </ul>

	responsibilities of Institutional shareholders should be noted.	
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Principle	Best Practice Guidance	Fund's Current Status
<p><b>6. Transparency and Reporting</b></p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>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</li> <li>provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> <li>An integrated approach to governance should be built and governance compliance statements should be maintained regularly.</li> <li>The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme.</li> <li>Examples of good communication from other funds should be sought.</li> <li>Annual report content should be compared to the regulations.</li> <li>Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information.</li> <li>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.</li> <li>The committee should know its stakeholders and the interests they have.</li> </ul>	<p><b>Full compliance</b></p> <ul style="list-style-type: none"> <li>The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year.</li> <li>Examples of good communication from other funds are sought.</li> <li>Communications are sent to members whenever important changes to the Fund take place, or to provide updates.</li> <li>The Fund operates transparently and enhances accountability to scheme members.</li> <li>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.</li> </ul>

## VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2000 1.0	SIP – created	March 2000	A Bowman
2006 1.0	SIP – update	March 2006	A Bowman
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb

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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](mailto:treasuryteam@scotborders.gov.uk)



- **Scottish Borders Council Pension Fund**

Actuary's Statement as at 31 March 2017

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The last full triennial valuation of the Scottish Borders Council Pension Fund was carried out as at 31 March 2017 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2018.

## Asset value and funding level

At 31 March 2017, the smoothed value of assets was £654m which was 114% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2014 was 101%.

## Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The 2017 valuation certified a total primary rate of 20.6% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The assumptions used to value the liabilities at 31 March 2017 are summarised over:

Assumptions as at 31 March 2017	
Discount rate	5.0%
Pay increases	3.8%
Pension increases	2.8%
Mortality	S2PA tables with a multiplier of 110% for males and 100% for females 2016 CMI Model with a long-term rate of improvement of 1.5% p.a. and smoothing parameter of 7.5
Retirement	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Commutation	Members will commute pension at retirement 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 for £1 of pension

The next valuation is due to be carried out as at 31 March 2020.

**Barnett Waddingham LLP**

## GLOSSARY OF TERMS

### ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

### ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

### ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

### BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

### BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

### CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

### DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

### GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

### INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

### MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

### PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

### **PENSIONER/DEPENDENT MEMBER**

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

### **POOLED FUND**

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

### **REALISED GAIN OR LOSS**

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

### **RETURN**

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

### **RISK**

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

### **SEGREGATED FUND**

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

### **SPECIALIST MANAGEMENT**

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

### **UNREALISED GAIN OR LOSS**

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

### **VALUE MANAGER**

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

### **VESTED/NON VESTED OBLIGATIONS**

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

### **PENSION FUND STRAIN**

The cost to employers of the early release of pension benefits.

## ADDITIONAL INFORMATION

### Key Documents Online

You can find further information on our website, [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions), including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2015/16 to 2017/18
- Actuarial Valuation Statement 2017

### Fund Advisers

<b>Actuaries:</b>	Barnett Waddingham
<b>Auditors:</b>	Audit Scotland
<b>Bankers:</b>	Bank of Scotland
<b>Investment Consultancy:</b>	KPMG
<b>Investment Custodians:</b>	Northern Trust
<b>Investment Managers:</b>	Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group, Permira, Blackrock and Harris Associates
<b>Additional Voluntary Contributions (AVC) Managers:</b>	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 <a href="mailto:gwilson@scotborders.gov.uk">gwilson@scotborders.gov.uk</a>	

*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.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

For further information on the Fund’s investments, please contact

Kirsty Robb	Telephone 01835 – 825249
Pension & Investment Manager	E-mail <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>



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**UNAUDITED**  
**ANNUAL REPORT AND**  
**ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**COMMON GOOD FUNDS**

Charity Registration Number: SC031538

FOR THE YEAR TO 31 MARCH 2018

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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 ten 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

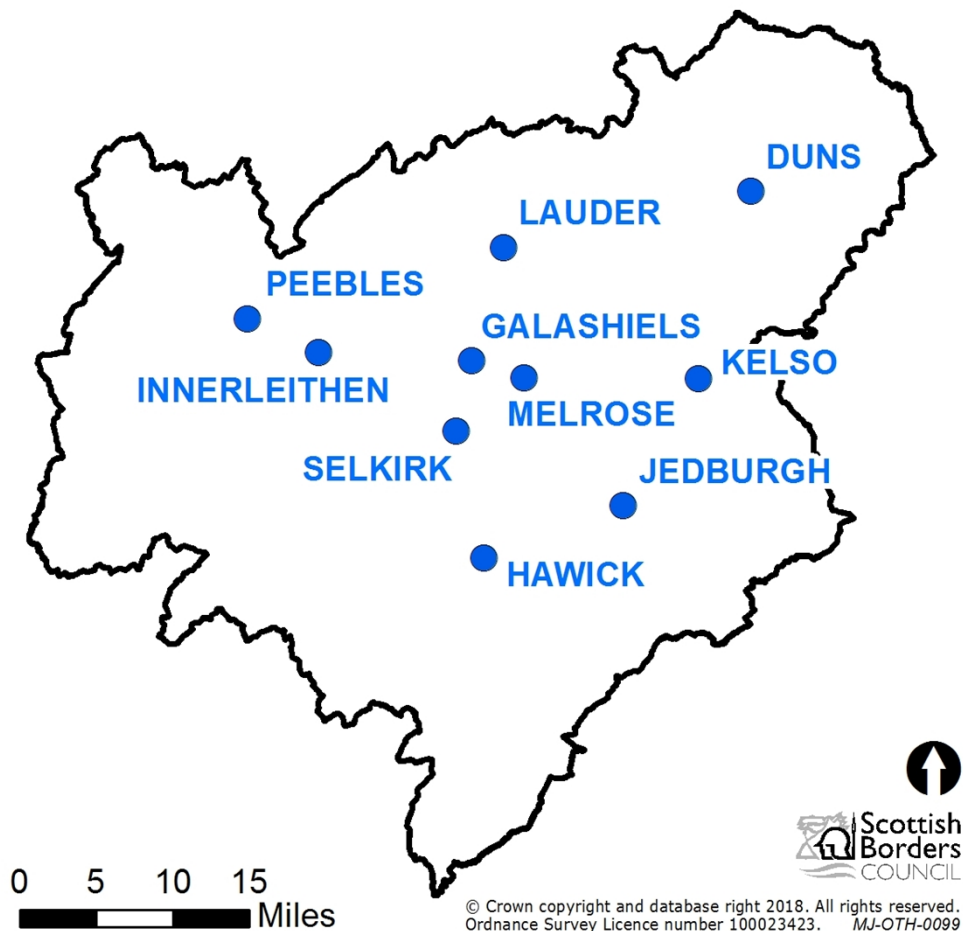
The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2018.

### Structure

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



In 2017/18, a Scout Hall (old Town Hall) in Melrose was recognised as a Common Good Asset, thereby creating Melrose Common Good Fund.



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 16.

Most of the individual funds have made donations to eligible beneficiaries in their Burghs with a total of £85,565 being paid out in the year.

Common Good investment funds were transferred from Newton to Kames Capital plc during 2017/18. 5 year investment performance by Newton fell below their own target as monthly and annual performance figures indicated they would. Kames Capital plc offer a targeted 5% dividend and a 2-3% capital growth.

## Plans for the Future

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

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

## Governance and Management

### Type of Governing Documents

- a) The overarching governance of the Charity is the principle of statute and common law. The statutory framework is the successive Acts from the Common Good Act 1491 through to the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003. Cognisance is also to be taken of the various judicial opinions in case law governing the treatment of Common Goods.
- b) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial  
Regulations

Code of  
Corporate  
Governance

Procedural  
Standing  
Orders

Scheme of  
Administration

Scheme of  
Delegation

- c) When considering any action in connection with the Common Good Funds the Trustees have regard to the interests of the inhabitants of the area to which the Common Good formerly related.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with 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 2018, the reserves of the Common Good Funds amounted to:

- Restricted Income Funds - £3,408k
- Revaluation Reserves - £10,039k

**Investments** Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Kames Capital Diversified Income Fund. This is a result of an approved move from the Newton Real Return Fund as approved at Council on 21 December 2017.

## Reference and Administrative Information

<b>Charity Name</b>	Scottish Borders Council Common Good Funds
<b>Charity registration number</b>	SC031538
<b>Business Address</b>	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

### Trustees

The Trustees of this charity for the year to 31 March 2018 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. Due to local elections on the 4<sup>th</sup> May there was a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017 or, where indicated, 23 February 2018. The second table details those Councillors who are no longer Trustees but who held positions as Trustees for part of the year.

Sandy Aitchison	<b>Andy Anderson</b>	<b>Heather Anderson</b>
Stuart Bell	Jim Brown	<b>Kris Chapman</b>
<b>Kevin Drum</b>	Gordon Edgar	Jim Fullarton
John Greenwell	<b>Carol Hamilton</b>	<b>Scott Hamilton</b>
<b>Shona Haslam</b>	<b>Euan Jardine</b>	<b>Helen Laing</b>
Stuart Marshall	Watson McAteer	<b>Tom Miers</b>
Donald Moffat	Simon Mountford	David Parker
<b>Caroline Penman (from 23/02/18)</b>	David Paterson	<b>Clair Ramage</b>
<b>Neil Richards</b>	<b>Euan Robson</b>	<b>Mark Rowley</b>
<b>Harry Scott</b>	Sandy Scott	<b>Eric Small</b>
<b>Robin Tatler</b>	<b>Elaine Thornton-Nicol</b>	George Turnbull
Tom Weatherston		

The following elected members were Trustees until Local Government elections on 4 May 2017, apart from Michelle Ballantyne, who held this position until 30 November 2017.

Willie Archibald	Michelle Ballantyne	Catriona Bhatia
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Graham H T Garvie
Bill Herd	Gavin Logan	John G Mitchell
Alexander J Nicol	Ron Smith	Rory Stewart
Jim Torrance	Bill White	

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

**Auditor** Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

**Professional support**

The Council provides the Administrative, Legal and Financial support and advice to the Common Good Funds which is recognised within *Other: governance costs* in the financial statements. All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Galashiels.

**Shona Haslam**  
**Trustee**  
**Scottish Borders Council Common Good Funds**  
**Xx June 2018**



## 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

2016/17 £'000		2017/18 £'000	Notes
	<b>Income from:</b>		
27	Donations and legacies	26	1
69	Investments	75	2
238	Charitable activities	216	
<b>334</b>	<b>Total Income</b>	<b>317</b>	
	<b>Expenditure on:</b>		
(385)	Raising funds	(503)	
(171)	Charitable activities	(86)	
(48)	Other: governance costs	(57)	
<b>(604)</b>	<b>Total Expenditure</b>	<b>(646)</b>	3
(8)	(Losses) / gains on investment assets – unrealised	(8)	
<b>(278)</b>	<b>Net Income / (Expenditure)</b>	<b>(337)</b>	
	<b>Other Recognised Gains / (Losses)</b>		
128	Recognition of Fixed Assets and Investments	48	
<b>(150)</b>	<b>Net Movement in Funds</b>	<b>(289)</b>	
	<b>Reconciliation of Funds</b>		
13,895	Total funds brought forward	13,745	
<b>13,745</b>	<b>Total Funds Carried Forward</b>	<b>13,456</b>	

## BALANCE SHEET as at 31 March 2018

as at 31 March 2017			as at 31 March 2018		Notes
£'000	£'000		£'000	£'000	
		<b>Long Term Assets</b>			
10,746		Tangible assets	10,538		5
2,700		Investments	2,659		6
47		Long term loan to third party	35		
	<b>13,493</b>	<b>Total Long Term Assets</b>		<b>13,232</b>	
		<b>Current Assets</b>			
20		Debtors	54		
255		Short term investment in SBC loans fund	259		
	<b>275</b>	<b>Total Current Assets</b>		<b>313</b>	
		<b>Current Liabilities</b>			
	(23)	Creditors: Amounts falling due within 1 year		(89)	
	<b>252</b>	<b>Net Current Assets</b>		<b>224</b>	
	<b>13,745</b>	<b>Total Net Assets</b>		<b>13,456</b>	
		<b>The Funds of the Charity</b>			
	(3,478)	Restricted income funds		(3,418)	7
	(10,267)	Revaluation reserve		(10,038)	
	<b>(13,745)</b>	<b>Total Charity Funds</b>		<b>(13,456)</b>	

## CASH FLOW STATEMENT as at 31 March 2018

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 2017			as at 31 March 2018		Notes
£'000	£'000		£'000	£'000	
		<b>Operating Activities</b>			
	(278)	Net Income / (Expenditure)		(337)	
		Adjustments to Net Income / (Expenditure) For Non Cash Movements			
275		Depreciation & Impairment	267		3
(1)		Net Movement in Debtors	(34)		
(22)		Net Movement in Creditors	63		
	252	Total Adjustments to Net Income / (Expenditure)		297	
	<b>(26)</b>	<b>Net Cash Flows from Operating Activities</b>		<b>(40)</b>	
		<b>Investing Activities</b>			
221		Disposal / (Purchase) of Short Term Assets	31		
(216)		(Purchase) / Disposal of Long Term Assets	(50)		
(8)		Other Items which are Investing Activities	47		
	<b>13</b>	<b>Net Cash Flows from Investing Activities</b>		<b>28</b>	
		<b>Financing Activities</b>			
13		Cash Received from Loans	12		
	<b>13</b>	<b>Net Cash Flows from Financing Activities</b>		<b>12</b>	
	<b>0</b>	<b>Net Movement in Cash</b>		<b>0</b>	

All of the charity's activities are continuing.

The Accounting Policies on pages 14 and 15 and the Notes on pages 16 to 19 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2018.

**David Robertson CPFA  
Chief Financial Officer  
Xx June 2018**

**Shona Haslam  
Trustee  
Scottish Borders Council Common Good Funds  
Xx June 2018**

## 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 raising 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 £5,000, 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

2016/17 £'000		2017/18 £'000
2	Duns	1
1	Galashiels	1
6	Hawick	6
0	Innerleithen	0
1	Jedburgh	1
1	Kelso	1
6	Lauder	6
5	Peebles	3
5	Selkirk	7
<b>27</b>		<b>26</b>

### 2 Income from Investments

2016/17 £000		2017/18 £'000
3	Bank Interest Receivable from SBC Loans Fund	2
51	Income from Investment Portfolio	73
<b>54</b>		<b>75</b>

### 3 Analysis of Charitable Expenditure

2016/17 Total £'000		Activities Undertaken Directly £'000	Support and Governance Costs £'000	Property Cost & Depreciation £'000	2017/18 Total £'000
3	Duns	0	2	1	3
38	Galashiels	0	3	42	45
160	Hawick	16	11	166	197
17	Innerleithen	0	0	17	17
92	Jedburgh	13	7	46	66
50	Kelso	2	2	52	56
29	Lauder	6	10	27	43
0	Melrose	0	0	3	3
81	Peebles	19	9	72	100
134	Selkirk	28	11	77	116
<b>604</b>		<b>86</b>	<b>57</b>	<b>503</b>	<b>646</b>



## 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 and also a pro-rated proportion of investment advice costs relating to the move to Kames Capital Fund manager. 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 March 2017		as at 31 March 2017		
Total		Asset Additions	Depreciation	Total
£'000		£'000	£'000	£'000
0	Duns		0	0
589	Galashiels		(36)	552
3,598	Hawick		(40)	3,559
290	Innerleithen		(17)	273
464	Jedburgh		(12)	454
797	Kelso		(43)	755
1,006	Lauder		(11)	993
0	Melrose	38	(3)	35
842	Peebles		(37)	803
3,161	Selkirk	21	(68)	3,114
<b>10,746</b>			<b>(267)</b>	<b>10,538</b>

Capital expenditure amounting to £21k was incurred at Selkirk Victoria Hall in replacing 4 stone pillars at the entrance to the building. Following investigation of title deeds and historic documents, the Scout Hall in Melrose was found to belong to Melrose Common Good at a value of £38k on 1 April 2017, depreciation charges amounting to £3k have been applied.

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

As at 31 March 2017		as at 31 March 2018		
Total		Land & Buildings at Net Book Value	Heritage Assets	Total Long Term Assets
£'000		£'000	£'000	£'000
0	Duns	0	0	0
588	Galashiels	552	0	552
3,598	Hawick	3,556	3	3,559
290	Innerleithen	273	0	273
464	Jedburgh	454	0	454
797	Kelso	736	19	755
1,006	Lauder	993	0	993
0	Melrose	35	0	35
842	Peebles	801	2	803
3,161	Selkirk	3,113	1	3,114
<b>10,746</b>		<b>10,513</b>	<b>25</b>	<b>10,538</b>

## 6 Investments

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

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investments.

Investment amounts and unrealised gains on these investments at 31 March 2018, per Common Good Fund are detailed below:

As at 31 March 2017		as at 31 March 2018			
Total Investment		Additional Investments	Realised Loss on Newton Disinvestment	Kames Unrealised Loss	Total Investment
£'000		£'000	£'000	£'000	£'000
0	Duns	18	1	0	17
154	Galashiels	0	6	0	148
473	Hawick	0	17	1	455
0	Innerleithen	0	0	0	0
937	Jedburgh	0	34	3	900
254	Kelso	0	10	1	243
258	Lauder	0	10	1	247
0	Melrose	0	0	0	0
435	Peebles	0	16	1	418
189	Selkirk	50	7	1	231
<b>2,700</b>		<b>68</b>	<b>101</b>	<b>8</b>	<b>2,659</b>

## 7 Restricted Income Funds

Balance at 31 March 2017 £'000		Unrealised movement on investment assets	SOFA Surplus	Balance at 31 March 2018 £'000
21	Duns	(0)	(1)	17
316	Galashiels	(5)	2	313
639	Hawick	(15)	(20)	601
135	Innerleithen	0	0	135
990	Jedburgh	(25)	(4)	948
291	Kelso	(9)	2	283
296	Lauder	(9)	1	289
0	Melrose	0	0	0
518	Peebles	(14)	8	510
272	Selkirk	(5)	25	288
<b>3,478</b>		<b>(82)</b>	<b>12</b>	<b>3,408</b>

## 8 Contingent Assets

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

**INDEPENDENT AUDITOR'S REPORT**

**to the trustees of Scottish Borders Council Common Good Funds and**

## ADDITIONAL INFORMATION

### Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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**UNAUDITED**  
**ANNUAL REPORT AND**  
**ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**WELFARE TRUST**

Charity Registration Number: SC044765  
FOR THE YEAR TO 31 MARCH 2017

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## FOREWORD

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

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

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

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

During 2017/18 further work on the reorganisation of charity funds continued and on 21st December Scottish Borders Council approved the reorganisation, in consultation with OSCR, for a number of funds to be amalgamated into this Trust on 1st April 2018.

## TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2018.

### Structure

Following the establishment of the Trust, Scottish Borders Council on 21<sup>st</sup> 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.

On 21st December 2017 the structure was revised, with the Sub Committee being disbanded and delegated authority being given to the Services Director of Customer and Communities for the following;

1. Approve applications for funding up to the value of £500 from the SBC Community Enhancement Trust and SBC Welfare Trust;
2. Approve applications for grants from £501 to £2,500 to the SBC Welfare Trust, subject to the agreement of at least 50% of the Members in the relevant Wards; and
3. Approve applications for grants from £501 to £5,000 to the SBC Community Enhancement Trust, subject to the agreement of at least 50% of the Members in the relevant Wards.

Grants over £5,000 require approval by the Executive Committee of Scottish Borders Council.

## 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 no donations during the financial year to 31 March 2018.
- Criteria and revised governance structure approved by Scottish Borders Council on 21st December 2017, following public consultation.
- Approval given by Scottish Borders Council and where required OSCR for a number of Trusts and Bequests to be amalgamated into the Trust from 1st April 2018.

## Plans for the Future

- Ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Community Enhancement Trust on 1st April 2018. A list of the funds transferring to Trust are contained in note 5 page 14.
- Applicaition forms are being finalised and the funds promoted via Scottish Borders Council web site.

## 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 21<sup>st</sup> May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



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

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 - £109,728

### Investments

Per the Council's Common Good and Trust Fund investment strategy the main balance of funds are invested in the Kames Capital PLC, Diversified monthly income fund.

## Reference and Administrative Information

<b>Charity Name</b>	SBC Welfare Trust
<b>Charity registration number</b>	SC044765
<b>Business Address</b>	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

### Trustees

The Trustees of this charity for the year to 31 March 2018 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. Due to local elections on the 4<sup>th</sup> May there was a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017 or, where indicated, 23 February 2018. The second table details those Councillors who are no longer Trustees but who held positions as Trustees for part of the year.

Sandy Aitchison	<b>Andy Anderson</b>	<b>Heather Anderson</b>
Stuart Bell	Jim Brown	<b>Kris Chapman</b>
<b>Kevin Drum</b>	Gordon Edgar	Jim Fullarton
John Greenwell	<b>Carol Hamilton</b>	<b>Scott Hamilton</b>
<b>Shona Haslam</b>	<b>Euan Jardine</b>	<b>Helen Laing</b>
Stuart Marshall	Watson McAteer	<b>Tom Miers</b>
Donald Moffat	Simon Mountford	David Parker
<b>Caroline Penman (from 23/02/18)</b>	David Paterson	<b>Clair Ramage</b>
<b>Neil Richards</b>	<b>Euan Robson</b>	<b>Mark Rowley</b>
<b>Harry Scott</b>	Sandy Scott	<b>Eric Small</b>
<b>Robin Tatler</b>	<b>Elaine Thornton-Nicol</b>	George Turnbull
Tom Weatherston		

The following elected members were Trustees until Local Government elections on 4 May 2017, apart from Michelle Ballantyne, who held this position until 30 November 2017.

Willie Archibald	Michelle Ballantyne	Catriona Bhatia
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Graham H T Garvie
Bill Herd	Gavin Logan	John G Mitchell
Alexander J Nicol	Ron Smith	Rory Stewart
Jim Torrance	Bill White	

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

**Auditor** Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

### **Professional support**

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

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

**Shona Haslam**  
**Trustee**  
**Scottish Borders Council Welfare Trust**  
**Xx June 2018**

## 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 2018**

2016/17 £		2017/18 £	Notes
	<b>Income From:</b>		
2,529	Investments	2,705	1
<b>2,529</b>	<b>Total Income</b>	<b>2,705</b>	
	<b>Expenditure on:</b>		
	Charitable activities	300	
(278)	Other: Governance costs	(325)	2
	Raising Funds	(3,613)	
<b>(278)</b>	<b>Total Expenditure</b>	<b>(3,638)</b>	
(407)	(Loss) / gain on investment assets	(307)	
<b>1,844</b>	<b>Net Movement in Funds</b>	<b>(1,240)</b>	
	<b>Reconciliation of Funds</b>		
109,124	Total funds brought forward	110,968	
<b>110,968</b>	<b>Total Funds Carried Forward</b>	<b>109,728</b>	6

**BALANCE SHEET as at 31 March 2018**

as at 31 March 2017 Restated			as at 31 March 2018		Notes
£	£		£	£	
		<b>Fixed Assets</b>			
98,491		Investments	94,571		4
	<b>98,491</b>			<b>94,571</b>	
		<b>Current Assets</b>			
	12,777	Short term investment in SBC loans fund		15,157	5
		<b>Current Liabilities</b>			
	(300)	Creditors: Amounts falling due within 1 year		0	
	<b>12,477</b>	<b>Net Current Assets</b>		<b>15,157</b>	
	<b>110,968</b>	<b>Total Net Assets</b>		<b>109,728</b>	
		<b>The Funds of the Charity</b>			
(110,968)		Restricted income funds	(109,187)		6,7
	<b>(110,968)</b>	<b>Total Charity Funds</b>		<b>(109,728)</b>	

All of the charity's activities are continuing.

The Accounting Policies on pages 11 and 12 and the Notes on pages 13 to 16, form part of these Financial Statements.

The unaudited accounts were issued on xx June 2018.

David Robertson CPFA  
Chief Financial Officer  
Xx June 2018

Shona Haslam  
Trustee  
Scottish Borders Council Common Good Funds  
Xx June 2018



## 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 raising 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

2016/17 £		2017/18 £
33	Bank Interest Receivable	48
2,496	Income from Investment Portfolio	2,658
<b>2,529</b>		<b>2,705</b>

### 2 Charitable Activities

No grants were paid out throughout the year. The debit balance in the Statement of Financial Activities relates to accrued 2016/17 grant payments, not paid out in 2017/18.

### 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.

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investment.

### 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. The purpose of these funds are:

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

2016/17 Balance	Restricted by Area	Restricted by Purpose	Income	Expenditure	Loss on investment assets	2017/18 Balance
£	£		£	£	£	£
61,294	Mid & East Berwickshire	a&b	1,450	174	2,103	60,467
4,170	Galashiels & District	a&b	116	118	170	4,234
<b>9,070</b>	Leaderdale & Melrose	a&b	219	26	318	<b>8,944</b>
<b>20,274</b>	Jedburgh & District	a&b	508	62	742	<b>19,979</b>
<b>8,281</b>	Hawick/Denholm/Hermitage	a&b	214	25	298	<b>8,172</b>
<b>731</b>	Tweeddale East & West	Unrestricted	18	2	27	<b>720</b>
7,148	Tweeddale East & West	a&b	179	147	262	7,212
<b>110,968</b>			<b>2,705</b>	<b>25</b>	<b>3,920</b>	<b>109,728</b>

The table below details the funds which will transfer from the Scottish Borders Council Charitable Trusts (SCO43896) on 1 April 2018.

Fund	Restricted by Area	Restricted by Purpose	2017/18 Reserve
			£
Brown Bequest	Tweeddale	a & b	418
Clive Craig-Brown Bequest	Selkirkshire	a & b	16,370
Dalrymple's Mortification	Lauder	a & b	1,566
Dunlop Bequest	Berwickshire	a & b	103,808
Edgar Bequest	Jedburgh & District	a & b	1,801
Elliot Mortification	Hawick & Denholm	a & b	3,127
Ewan Trust	Hawick & Denholm	a & b	3,179
Ex Provost Mercer's Bequest No1	Galashiels & District	a & b	1,030
Ex Provost Mrs Laidlaw's Benifaction	Jedburgh & District	a & b	201
Ferguson Dalwhinny Fund	Tweeddale	a & b	16,916
G D Gibson's Bequest	Galashiels & District	a & b	2,336
George D Gibson's Bequest	Selkirkshire	a & b	10,211
Henry Laidlaw Trust	Jedburgh & District	a & b	1,807
James West Brown's Bequest	Jedburgh & District	a & b	81
Jedburgh Coal Fund	Jedburgh & District	a & b	11,398
John Herbetson Bequest	Jedburgh & District	a & b	1,473
John Hunter's Bequest	Jedburgh & District	a & b	229
John Murray's Bequest	Jedburgh & District	a & b	92
Joshua Goodfellow's Bequest	Hawick Denholm & Hermitage	a & b	347

**Scottish Borders Council Welfare Trust  
Annual Report and Financial Statements For The Year To 31 March 2018**

Lands at Calfwad	Berwickshire	a & b	27
Marjoribanks Bequest	Berwickshire	a & b	3,921
McKinley Trust	Hawick & Hermitage	a & b	550
Miss A T Waldie Trust	Jedburgh & District	c	20,211
Miss A T Waldie Bequest	Jedburgh & District	a & b	2,043
Mrs Adams Bequest	Hawick Denholm & Hermitage	a & b	420
Mrs Hobkirk's Fund	Hawick Denholm & Hermitage	a & b	2,793
Mrs M Cheetham Bequest	Jedburgh & District	a & b	169
R D Forman's Bequest	Hawick & Hermitage	c	25,279
Raith's Mortification	Lauder	a & b	4,708
Robert Meggit's Bequest	Jedburgh & District	a & b	1,201
Robert Watson Fund	Galashiels & District	a & b	51,016
Simpson Dalwhinny Fund	Tweeddale	a & b	27,091
Sir John Robert's Bequest	Selkirkshire	a & b	6,405
T J S Roberts Trust	Selkirkshire	a & b	12,136
Thomas B Williamson Bequest	Selkirkshire	a & b	2,341
Waugh Bequest	Melrose & District	a & b	1,050
William Forrester's Bequest	Galashiels & District	a & b	23,417
William Laidlaw Memorial Fund	Hawick & Denholm	a & b	457
<b>Total Funds Transferring</b>			<b>361,625</b>

The table below details the funds not registered with OSCR which are managed by Scottish Borders Council and which will transfer on 1 April 2018.

Fund	Restricted by Area	Restricted by Purpose	2017/18 Reserve £
Marion Law Bequest	Hawick Denholm/Hawick & Hermitage	a&b	9,226
J J Barr Bequest	Jedburgh & District	a&b	498
Holidays at Home Week (1943)	Jedburgh & District	a&b	96
John L Smith Bequest	Kelso & District	a&b	3,479
Kelso Coal Fund	Kelso & District	a&b	1,545
Miss Agnes P Johnstons Bequest	Kelso & District	a&b	343
Miss Catherine JM Walkers Beq.	Kelso & District	a&b	505
Miss Jane Broomfields Bequest	Kelso & District	a&b	30
Miss Janet Woods Bequest	Kelso & District	a&b	389
Mrs Jane Hubners Bequest	Kelso & District	a&b	521
Miss A Y Redpath Trust	Berwickshire	a&b	10
W M Swan Bequest	Berwickshire	a&b	99,919
Bogend & Cairnsmill	Berwickshire	a&b	5
Lands At Harcarse	Berwickshire	a&b	3
Ashkirk Parish Welfare Fund	Selkirkshire	a&b	1,258
David Grieves Bequest	Bowden	a&b	307
Christopher Boyd's Bequest	Galashiels & District	a&b	33,470
King Edward Memorial Coal Fund	Galashiels & District	a&b	860
Miss Janet Flint's Bequest	Galashiels & District	a&b	829
Colvins Fund (Lauder)	Lauder	a&b	4,585
Miss Anzilla P. Tillie's Bequest	Lauder	a&b	4,921

William Hill Trust No2	Melrose & District	a&b	5,727
Anderson Trust	Selkirkshire	a&b	2,282
James Hart Trust Fund	Selkirkshire	a&b	6,775
MacDonald Legacy	Selkirkshire	a&b	3,014
The Dryden Fund Trust	Selkirkshire	a&b	1,363
Robert's Trust	Selkirkshire	a&b	22,015
R. Laidlaw's Gift	Tweeddale	a&b	566
Disabled Sailors' & Soldiers fund for Peeblesshire	Tweeddale	a&b	6,617
Frank Mathieson's Bequest	Tweeddale	a&b	313
Mrs Buist's Bequest	Tweeddale	a&b	661
<b>Total Funds Transferring</b>			<b>212,132</b>

## 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 2018, the reserves of the SBC Welfare Trust amounted to:

- Restricted Income Funds - £109,728

**INDEPENDENT AUDITOR'S REPORT**

**to the trustees of Scottish Borders Welfare Trust and the Accounts  
Commission for Scotland**

## ADDITIONAL INFORMATION

### Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA



**UNAUDITED**  
**ANNUAL REPORT AND ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**EDUCATION TRUST**

Charity Registration Number: SC044762

FOR THE YEAR TO 31 MARCH 2018

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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 2017/18 and a further report will be substantially submitted to Scottish Borders Council during 2018/19 around the possible amalgamation of 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 2018.

### Structure

Following the establishment of the Trust, Scottish Borders Council on 21<sup>st</sup> 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 2018.
- Following consultation work with OSCR the Thomas Howden Wildlife Award Fund (SC015647) was amalgamated into the Education Trust.

## Plans for the Future

- The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.
- The ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the OSCR approved amalgamation of other registered and non-registered trusts and bequests into the SBC Education Trust in 2018/19.

## 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 21<sup>st</sup> May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with 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 - £6,351

### Investments

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

## Reference and Administrative Information

<b>Charity Name</b>	SBC Education Trust
<b>Charity registration number</b>	SC044762
<b>Business Address</b>	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

### Trustees

The Trustees of this charity for the year to 31 March 2018 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. Due to local elections on the 4<sup>th</sup> May there was a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017 or, where indicated, 23 February 2018. The second table details those Councillors who are no longer Trustees but who held positions as Trustees for part of the year.

Sandy Aitchison	<b>Andy Anderson</b>	<b>Heather Anderson</b>
Stuart Bell	Jim Brown	<b>Kris Chapman</b>
<b>Kevin Drum</b>	Gordon Edgar	Jim Fullarton
John Greenwell	<b>Carol Hamilton</b>	<b>Scott Hamilton</b>
<b>Shona Haslam</b>	<b>Euan Jardine</b>	<b>Helen Laing</b>
Stuart Marshall	Watson McAteer	<b>Tom Miers</b>
Donald Moffat	Simon Mountford	David Parker
<b>Caroline Penman (from 23/02/18)</b>	David Paterson	<b>Clair Ramage</b>
<b>Neil Richards</b>	<b>Euan Robson</b>	<b>Mark Rowley</b>
<b>Harry Scott</b>	Sandy Scott	<b>Eric Small</b>
<b>Robin Tatler</b>	<b>Elaine Thornton-Nicol</b>	George Turnbull
Tom Weatherston		

The following elected members were Trustees until Local Government elections on 4 May 2017, apart from Michelle Ballantyne, who held this position until 30 November 2017.

Willie Archibald	Michelle Ballantyne	Catriona Bhatia
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Graham H T Garvie
Bill Herd	Gavin Logan	John G Mitchell
Alexander J Nicol	Ron Smith	Rory Stewart
Jim Torrance	Bill White	

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

**Auditor** Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

### **Professional support**

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

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

**Shona Haslam**  
Trustee  
Scottish Borders Council Education Trust  
Xx June 2018

## 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 2018

2016/17 £		2017/18 £	Notes
	<b>Income from:</b>		
131	Investments	382	
	Donation from Thomas Howden		
<b>131</b>	<b>Total Income</b>	<b>382</b>	
	<b>Expenditure on:</b>		
	Charitable activities	(50)	
(50)	Raising Funds	(191)	1
	Other : Governance costs	(17)	
<b>(50)</b>	<b>Total Expenditure</b>	<b>(258)</b>	
(7)	(Loss) / gains on investment assets	(16)	
<b>74</b>	<b>Net Income / (Expenditure)</b>	<b>108</b>	
	<b>Other Recognised Gains / (Losses)</b>		
0	Recognition of Fixed Assets and Investments	4,432	
<b>74</b>	<b>Net Movement in Funds</b>	<b>4,540</b>	
	<b>Reconciliation of Funds</b>		
1,737	Total funds brought forward	1,811	
<b>1,811</b>	<b>Total Funds Carried Forward</b>	<b>6,351</b>	

**BALANCE SHEET as at 31 March 2018**

as at 31 March 2017			as at 31 March 2018		Notes
£	£		£	£	
1,585	1,585	<b>Fixed Assets</b>			
		Investments	5,004		3
226		<b>Current Assets</b>		5,004	
		Short term investment in SBC loans fund.	1,357		4
	226	<b>Net Current Assets</b>		1,347	
	1,811	<b>Total Net Assets</b>		6,351	
(1,811)		<b>The Funds of the Charity</b>			
		Restricted income funds	(6,351)		
	(1,811)	<b>Total Charity Funds</b>		(6,351)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on xx June 2018.

David Robertson CPFA  
Chief Financial Officer  
Xx June 2018

Shona Haslam  
Trustee  
Scottish Borders Education Trust  
Xx June 2018

## 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 raising 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 has provided a grant to one eligible beneficiary during the year to 31 March 2018.

### 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.

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investment.

### 4 Short Term Investments in SBC Loans Fund

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

### 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.

2016/17 Balance	Restricted by Area	Restricted by Purpose	Income	Expenditure	2017/18 Balance
£	£		£	£	£
1,811	Borders Wide Peeblesshire		140 4,674	118 156	1,833 4,518
<b>1,811</b>			<b>4,814</b>	<b>274</b>	<b>6,351</b>

**INDEPENDENT AUDITOR'S REPORT**

**to the trustees of Scottish Borders Council Education Trust and the  
Accounts Commission for Scotland**

## ADDITIONAL INFORMATION

### Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA







**UNAUDITED**  
**ANNUAL REPORT AND**  
**ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**COMMUNITY ENHANCEMENT**  
**TRUST**

Charity Registration Number: SC044764

FOR THE YEAR TO 31 MARCH 2018

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## FOREWORD

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

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

- a) The advancement of community development;
- b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
- c) The provision of recreational facilities, or the organisation of recreational activities, 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 2017/18 further work on the reorganisation of charity funds continued and on 21<sup>st</sup> December Scottish Borders Council approved the reorganisation, in consultation with OSCR, for a number of funds to be amalgamated into this Trust on 1<sup>st</sup> April 2018.

## TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2018.

### Structure

Following the establishment of the Trust, Scottish Borders Council on 21<sup>st</sup> 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 had delegated powers to the Sub-Committee to manage the operation of the Trust.

On 21<sup>st</sup> December 2017 the structure was revised, with the Sub Committee being disbanded and delegated authority being given to the Services Director of Customer and Communities for the following;

1. Approve applications for funding up to the value of £500 from the SBC Community Enhancement Trust and SBC Welfare Trust;
2. Approve applications for grants from £501 to £2,500 to the SBC Welfare Trust, subject to the agreement of at least 50% of the Members in the relevant Wards; and
3. Approve applications for grants from £501 to £5,000 to the SBC Community Enhancement Trust, subject to the agreement of at least 50% of the Members in the relevant Wards.

Grants over £5,000 require approval by the Executive Committee of Scottish Borders Council.

## 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 improvement.

## Summary of the Main Activities

- Criteria and revised governance structure approved by Scottish Borders Council on 21st December 2017, following public consultation.
- Approval given by Scottish Borders Council and where required OSCR for a number of Trusts and Bequests to be amalgamated into the Trust from 1st April 2018.

## Plans for the Future

- Ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Community Enhancement Trust on 1st April 2018. A list of the funds transferring to Trust are contained in note 5 page 14.
- Application forms are being finalised and the funds promoted via Scottish Borders Council web site.

## 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 21<sup>st</sup> May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard 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 2018, the reserves of the SBC Community Enhancement Trust amounted to:

- Restricted Income Funds - £72,388.

### Investments

Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Kames Capital PLC, Diversified monthly income fund.

## Reference and Administrative Information

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

### Trustees

The Trustees of this charity for the year to 31 March 2018 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. Due to local elections on the 4<sup>th</sup> May there were a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017 or, where indicated, 23 February 2018. The second table details those Councillors who are no longer Trustees but who held positions as Trustees for part of the year.

Sandy Aitchison	<b>Andy Anderson</b>	<b>Heather Anderson</b>
Stuart Bell	Jim Brown	<b>Kris Chapman</b>
<b>Kevin Drum</b>	Gordon Edgar	Jim Fullarton
John Greenwell	<b>Carol Hamilton</b>	<b>Scott Hamilton</b>
<b>Shona Haslam</b>	<b>Euan Jardine</b>	<b>Helen Laing</b>
Stuart Marshall	Watson McAteer	<b>Tom Miers</b>
Donald Moffat	Simon Mountford	David Parker
<b>Caroline Penman (from 23/02/18)</b>	David Paterson	<b>Clair Ramage</b>
<b>Neil Richards</b>	<b>Euan Robson</b>	<b>Mark Rowley</b>
<b>Harry Scott</b>	Sandy Scott	<b>Eric Small</b>
<b>Robin Tatler</b>	<b>Elaine Thornton-Nicol</b>	George Turnbull
Tom Weatherston		

The following elected members were Trustees until Local Government elections on 4 May 2017, apart from Michelle Ballantyne, who held this position until 30 November 2017.

Willie Archibald	Michelle Ballantyne	Catriona Bhatia
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Graham H T Garvie
Bill Herd	Gavin Logan	John G Mitchell
Alexander J Nicol	Ron Smith	Rory Stewart
Jim Torrance	Bill White	

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

**Auditor** Audit Scotland  
102 West Port  
Edinburgh

EH3 9DN

### **Professional support**

The Council provides the Administrative, Legal and Financial support and advice to the Community Enhancement Trust.

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

**Shona Haslam**  
**Trustee**  
**Scottish Borders Council Community Enhancement Trust**  
**Xx June 2018**

## 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 2018

2016/17 £		2017/18 £	Notes
	<b>Income from:</b>		
1,873	Investments	1,997	1
<b>1,873</b>	<b>Total Income</b>	<b>1,997</b>	
	<b>Expenditure on:</b>		
	Charitable activities	(2,697)	
0	Raising Funds	(243)	2
	Other : Governance Costs		
<b>0</b>	<b>Total Expenditure</b>	<b>(2,940)</b>	
(304)	(Loss) / gain on investment assets	(229)	4,5
<b>1,569</b>	<b>Net Movement in Funds</b>	<b>(1,172)</b>	
	<b>Reconciliation of Funds</b>		
71,991	Total funds brought forward	73,560	5
<b>73,560</b>	<b>Total Funds Carried Forward</b>	<b>72,388</b>	5

**BALANCE SHEET as at 31 March 2018**

as at 31 March 2017			as at 31 March 2018		Notes
£	£		£	£	
73,521	73,521	<b>Fixed Assets</b>			
		Investments	70,594		
39		<b>Current Assets</b>		70,594	
		Short term investment in SBC loans fund.	1,794		
		<b>Current Liabilities</b>			
		Creditors: Amounts falling due within 1 year			
	39	<b>Net Current Assets</b>		1,794	
	73,560	<b>Total Net Assets</b>		72,388	5
(73,560)		<b>The Funds of the Charity</b>			
		Restricted income funds	(72,388)		
	(73,560)	<b>Total Charity Funds</b>		(72,388)	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 xx June 2018.

David Robertson CPFA  
Chief Financial Officer  
Xx June 2018

Shona Haslam  
Trustee  
Scottish Borders Council Community  
Enhancement Trust  
xx June 2018

## 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 raising 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

2016/17 £		2016/17 £
10	Bank Interest Receivable	13
1,863	Income from Investment Portfolio	1,984
<b>1,873</b>		<b>1,997</b>

### 2 Charitable Activities

There were no charitable activities during 2017/18.

### 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.

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investment.

### 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. 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

**Scottish Borders Council Community Enhancement Trust**  
**Unaudited Annual Report and Financial Statements For The Year To 31 March 2018**

2016/17 Balance	Restricted by Area	Restricted by Purpose	Income	Loss on investment assets	2017/18 Balance
£	£		£	£	£
1,524	Borders Wide	a	38	59	1,503
13,220	Berwickshire	Unrestricted	332	525	13,027
28,506	Berwickshire	b	878	1,402	27,982
529	Berwickshire	Henderson Park & War Mem.	15	24	520
1,632	Cheviot	Allerley Park	40	64	1,608
1,118	Selkirkshire	Unrestricted	28	45	1,101
20,060	Teviot & Liddiesdale	b	491	774	19,777
6,971	Teviot & Liddiesdale	a&b	175	276	6870
<b>73,560</b>			<b>1,997</b>	<b>3,169</b>	<b>72,388</b>

The table below details the funds which will transfer from the Scottish Borders Council Charitable Trusts (SCO43896) on 1 April 2018.

Fund	Restricted by Area	Restricted by Purpose	2017/18 Reserve £
Alex Grieves Bequest (1)	Hawick Denholm & Hermitage	c	419
Alex Grieves Bequest (2)	Hawick Denholm & Hermitage	b	275
Ayton War Memorial Fund	Berwickshire	b	956
Coldstream War Memorial	Berwickshire	b	60
Longformacus Public Park	Berwickshire	c	251
Wm Brown's Bequest	Hawick Denholm & Hermitage	b	294
<b>Total Transferring</b>			<b>2,255</b>

The table below details the funds not registered with OSCR which are managed by Scottish Borders Council and which will transfer on 1 April 2018.

Fund	Restricted by Area	Restricted by Purpose	2017/18 Reserve £
William Hall's Trust	Hawick Denholm/Hawick & Hermitage	b	243
W Rutherford Bequest	Hawick Denholm/Hawick & Hermitage	None	20,300
Hawick War Memor.(Flower Section)	Hawick Denholm/Hawick & Hermitage	b	51
Alexander Ritchies Bequest	Hawick Denholm	b	25
Miss Jessie Patersons Bequest	Hawick & Hermitage	b	50
Barton Bequest	Hawick & Hermitage	b	304
Mrs Mills Bequest	Hawick & Hermitage	b	40
G H L Oliver Bequest	Hawick Denholm	b	187
Mrs Susan Bells Bequest	Hawick Denholm	b	8
Abbey Floodlighting Fund	Jedburgh & District	b	181
Queen Marys House	Jedburgh & District	b	552
Robert Jack Bequest	Jedburgh & District	b	124
Miss C J Barries Bequest	Jedburgh & District	b	100
Mrs McNair Trust	Jedburgh & District	b	54

**Scottish Borders Council Community Enhancement Trust**  
**Unaudited Annual Report and Financial Statements For The Year To 31 March 2018**

Yair Bequest	Kelso & District	b	30
Huggan Bequest	Jedburgh & District	b	50
War Graves Upkeep	Jedburgh & District	b	25
Miss Mary Smiths Bequest	Kelso & District	b	10
Robert Dodds	Kelso & District	b	201
Chisholm Bequest	Jedburgh & District	b	191
W H Thomsons Trust	Kelso & District	b	199
Hamilton Bequest	Jedburgh & District	b	71
Home Bequest	Jedburgh & District	b	10
Mrs Isabella D R Doves Bequest	Jedburgh & District	b	32
Ramsay-Fairfax Bequest	Jedburgh & District	b	217
Morrison Bequest	Kelso & District	b	27
Hownam Trust Fund	Kelso & District	b	110
Roxburgh War Memorial	Kelso & District	b	182
Roxburgh War Memorial	Kelso & District	b	48
Greenlaw Parish Acc	Berwickshire	c	83
Coldstream Assoc.Trusts Fund	Berwickshire	None	1,482
Flodden Memorial Fund	Berwickshire	b	2,652
Robt. Elliot B G Trust	Berwickshire	b	14
Mrs A A Swan Duns B G	Berwickshire	b	139
Rutherford B G Trust	Berwickshire	b	32
Mrs. Agnes Dodds	Berwickshire	b	61
Mrs M C A Taubman	Berwickshire	b	133
Earston Back Row Repair Fund	Earlston	None	38
Miss Isabella Wallace's Fund	Earlston	None	13,142
Earlston Mill Meadow	Earlston	None	2,876
Woods Bequest	Earlston	b	361
I Wallace Bequest	Earlston	b	586
War Memorial fund	Galashiels & District	b	5,794
Eastlands Burying Ground Fund	Galashiels & District	b	1,448
Fraser Memorial fund	Selkirk & District	b	217
James Hogg Centenary Fund	Selkirk & District	b	180
John Brodie Bequest	Selkirk & District	b	1,086
Selkirk Std. Bearer Memorial Fund	Selkirk & District	b	2,224
Sir Walter Scott Monument Fund	Selkirk & District	b	377
Alexander Kirk Bequest	Selkirk & District	b	10
James Barrie's Bequest	Selkirk & District	b	30
Miss Euphemia Ballantyne's Beqst.	Selkirk & District	b	10
Miss Helen A.Lawson Bequest	Selkirk & District	b	25
Miss Thomasina Riddell's Bequest	Selkirk & District	b	174
Mrs Katherine A.Steven Bequest	Selkirk & District	b	25
Mrs Robina H McCracken's Bequest	Selkirk & District	b	40
Mrs.Elizabeth Hogg Bequest	Selkirk & District	b	90
Rodger Bequest	Selkirk & District	b	10
Somerville Bequest	Selkirk & District	b	10
T.D.B.Hutchinson Bequest	Selkirk & District	b	37
Meade Trust	Selkirk & District	b	4,794

**Scottish Borders Council Community Enhancement Trust**  
**Unaudited Annual Report and Financial Statements For The Year To 31 March 2018**

Miss E.Chalmer's Bequest	Selkirk & District	b	24
Mrs E.Parr Fund	Selkirk & District	b	413
Rev. R. Birkett's fund	Selkirk & District	b	88
Thomas Dickson Bequest	Selkirk & District	b	286
Alex Kirk Fund	Selkirk & District	b	66
Kirkwood bequest	Lauder & District	b	65
William Murray's Fund	Lauder & District	b	62
Lauder Light railway	Lauder & District	b	390
Lauder library trust (marion Turnbull)	Lauder & District	b	32,657
Orminston Trust ( Meikle Clock)	Melrose	b	36
William Hill Trust No1	Melrose	b	205
Brewster bequest	Melrose	b	342
Fraser Bequest (2)	Melrose	b	93
Nash bequest	Melrose	b	39
Philpott Bequest	Melrose	b	56
Winser legacy	Melrose	b	498
Hunter Bequest	Melrose	b	79
Phin Bequest	Melrose	b	83
Mertoun War Memorial	Selkirkshire	b	44
King George V Playing Field	Selkirkshire	b	646
Sir Walter Scott Statue Fund	Tweeddale	b	820
Peebles County War Memorial Fund	Tweeddale	b	1,110
Lady Thomson's Endowment Fund	Tweeddale	b	25
West Linton War Memorial Fund	Tweeddale	b	112
Tweedside Physical & Antiquarian Socy.	Tweeddale	b	2,289
J. W. Riddell Bequest	Tweeddale	b	588
Peter Lockie's Bequest	Tweeddale	b	117
Mrs J O Hogg's bequest	Tweeddale	b	154
Peebles Cemetery-Lair Enclosure	Tweeddale	b	462
Thomas Ross Bequest	Tweeddale	b	28
Provost Mathieson Bequest	Tweeddale	b	265
Gracie Bequest	Tweeddale	b	135
<b>Total Funds Transferring</b>			<b>104,079</b>

## 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 2018, the reserves of the SBC Community Enhancement Trust amounted to:

- Restricted Income Funds - £72,388



**INDEPENDENT AUDITOR'S REPORT**

**to the trustees of Scottish Borders Council Community Enhancement  
Trust and the Accounts Commission for Scotland**

## ADDITIONAL INFORMATION

### Contact Details

For further information on the SBC Community Enhancement Trust, please contact:

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA



**UNAUDITED**  
**ANNUAL REPORT AND**  
**ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**ORMISTON TRUST FOR INSTITUTE**

Charity Registration Number: SC019162

FOR THE YEAR TO 31 MARCH 2018

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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 2018.

### 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 2017/18 have been fully utilised during the year. The funds are expended on behalf of the Charity by Live Borders who manages facility on behalf of the Trustees.

### Plans for the Future

Scottish Borders Council will continue to manage the service on behalf of Trustees ensuring access to the services and building is provided.

An ongoing project, led by the Trimontium Trust aims to expand and improve the Trimontium Museum, located in the Ormiston Institute.

## Governance and Management

### Type of Governing Documents

- a) The charity came to be administered by the Council during local government reorganisation in 1996. A Trust Disposition and settlement by the late Charles Walker Ormiston was requested with the books of Council and Session 13 February 1882. The present Council are the statutory successors to that body.
- a) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial  
Regulations

Code of  
Corporate  
Governance

Procedural  
Standing  
Orders

Scheme of  
Administration

Scheme of  
Delegation

- c) When considering any action in connection with the Charity the Trustees must act in the interest of the Charity Funds.
- b) The financial statements comply with the Financial Reporting Standard 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 2018, 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 2018 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. Due to local elections on the 4<sup>th</sup> May there was a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017. These were:

David Parker

**Tom Miers**

**Kevin Drum**

The following elected members were Trustees until Local Government elections on 4 May 2017.

Jim Torrance

Iain Gillespie

**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, Galashiels.

**David Parker**  
Trustee  
Scottish Borders Council Ormiston Trust for Institute  
Xx June 2018



## 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 2018

2016/17 £		2017/18 £	Notes
	<b>Income From:</b>		
257	Investments	273	1
0	Other : Donations	0	
<b>257</b>	<b>Total Income</b>	<b>273</b>	
	<b>Expenditure on</b>		
(25,500)	Raising funds	(25,863)	3
(257)	Charitable activities	(123)	2
0	Other : Governance Costs	(33)	
<b>(25,757)</b>	<b>Total Expenditure</b>	<b>(26,019)</b>	
(49)	Gains/(Loss) / gain on investment assets	(32)	
<b>(25,549)</b>	<b>Net Movement in Funds</b>	<b>(25,778)</b>	
	<b>Reconciliation of Funds</b>		
321,446	Total funds brought forward	295,897	
<b>295,897</b>	<b>Total Funds Carried Forward</b>	<b>270,119</b>	

## BALANCE SHEET as at 31 March 2018

as at 31 March 2017 Restated			as at 31 March 2018		Notes
£	£		£	£	
		<b>Fixed Assets</b>			
285,500		Tangible assets	260,000		4
10,092		Investments	9,697		5
	<b>295,592</b>			<b>269,697</b>	
		<b>Current Assets</b>			
305		Short term investment in SBC loans fund.	508		
	<b>405</b>	<b>Total Current Assets</b>		<b>508</b>	
		<b>Current Liabilities</b>			
		Creditors:			
	<b>(100)</b>	Amounts falling due within 1 year		<b>(86)</b>	
	<b>295,897</b>	<b>Total Net Assets</b>		<b>270,199</b>	
		<b>The Funds of the Charity</b>			
(295,897)		Restricted income funds	(270,199)		
	<b>(295,897)</b>	<b>Total Charity Funds</b>		<b>(270,199)</b>	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on xx June 2018.

**David Robertson CPFA**  
Chief Financial Officer  
XX September 2018

**David Parker**  
Trustee  
Scottish Borders Council Ormiston Trust for Institute  
xx September 2018

## 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 raising 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 £5,000, 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.

2016/17		2017/18
£'000		£'000
1	Bank Interest Receivable	1
255	Income from Investment Portfolio	272
<b>256</b>		<b>273</b>

### 2 Charitable Activities during 2017/18

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
<b>Opening Balance at 1 April 2016</b>	<b>285,500</b>
Depreciation for year	25,500
<b>Closing Balance at 31 March 2017</b>	<b>260,000</b>

## **5 Investments**

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

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investment.

## **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**

**to the trustees of Scottish Borders Council Ormiston Trust for Institute**



## ADDITIONAL INFORMATION

### Contact Details

For further information on the Ormiston Trust for Institute, please contact:

Kirsty Robb	Telephone: 01835 – 825249
Pensions & Investments Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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**UNAUDITED**  
**ANNUAL REPORT AND**  
**ACCOUNTS**  
**SCOTTISH BORDERS COUNCIL**  
**CHARITABLE TRUSTS**

Charity Registration Number: SC043896

FOR THE YEAR TO 31 MARCH 2018

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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. Following public consultation meetings and discussion with OSCR during 2017 a report was presented to Scottish Borders Council on 21<sup>st</sup> December 2017 recommending the transfer of a number of the restricted funds to the Scottish Borders Council Welfare Trust and Scottish Borders Council Community Enhancement Trust. The formal submission requests were submitted to OSCR during February 2018 for approval. Approval has been received from OSCR with an agreed transfer date of 1<sup>st</sup> April 2018. The table on page 16 details the restricted funds being transferred and the receiving Trusts.. A further report will be submitted to Scottish Borders Council for the remaining Funds during 2018/19.

## TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2018.

### Structure

The Charity comprises some 76 charitable funds originally established for a variety of purposes. 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 2018 totalling £15,897 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

Approval to transfer a number of Funds to the Scottish Borders Council Welfare Trust and Scottish Borders Council Community Enhancement Trust has been given by OSCR and will result in a number of funds transferring their full reserve balances as from 1st April 2018. The remaining funds 33 will be reviewed during 2018/19 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 21<sup>st</sup> May 2015 and have been reflected in its governance codes. The Local Code of Corporate Governance of Scottish Borders Council covers the governance of the Charity and is comprised of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard 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 2018, the reserves of the SBC Charitable Trust Funds amounted to:

Restricted Income Funds - £612,202

**Investments** Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested with Kames Capital plc in a diversified income 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 2018 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. Due to local elections on the 4<sup>th</sup> May there was a number of changes to the Trustees. The tables below shows the current Trustees, the names in bold are those Trustees who took up their roles from 4 May 2017 or, where indicated, 23 February 2018. The second table details those Councillors who are no longer Trustees but who held positions as Trustees for part of the year.

Sandy Aitchison	<b>Andy Anderson</b>	<b>Heather Anderson</b>
Stuart Bell	Jim Brown	<b>Kris Chapman</b>
<b>Kevin Drum</b>	Gordon Edgar	Jim Fullarton
John Greenwell	<b>Carol Hamilton</b>	<b>Scott Hamilton</b>
<b>Shona Haslam</b>	<b>Euan Jardine</b>	<b>Helen Laing</b>
Stuart Marshall	Watson McAteer	<b>Tom Miers</b>
Donald Moffat	Simon Mountford	David Parker
<b>Caroline Penman (from 23/02/18)</b>	David Paterson	<b>Clair Ramage</b>
<b>Neil Richards</b>	<b>Euan Robson</b>	<b>Mark Rowley</b>
<b>Harry Scott</b>	Sandy Scott	<b>Eric Small</b>
<b>Robin Tatler</b>	<b>Elaine Thornton-Nicol</b>	George Turnbull
Tom Weatherston		

The following elected members were Trustees until Local Government elections on 4 May 2017, apart from Michelle Ballantyne, who held this position until 30 November 2017.

Willie Archibald	Michelle Ballantyne	Catriona Bhatia
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Graham H T Garvie
Bill Herd	Gavin Logan	John G Mitchell
Alexander J Nicol	Ron Smith	Rory Stewart
Jim Torrance	Bill White	

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



**Auditor**                    Audit Scotland  
                                  102 West Port  
                                  Edinburgh  
                                  EH3 9DN

**Professional support**

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

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

**Shona Haslam**  
**Trustee**  
**Scottish Borders Council Charitable Trusts**  
**Xx June 2018**

## 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 2018

2016/17 £		2017/18 £	Notes
	<b>Income from:</b>		
205	Donations and legacies	183	1
33,244	Investments	35,361	2
<b>33,449</b>	<b>Total Income</b>	<b>35,544</b>	
	<b>Expenditure on:</b>		
(8,645)	Charitable activities	(15,897)	
	Raising Funds	(20,379)	3,7
	Other : Governance Costs	(1,816)	
<b>(8,645)</b>	<b>Total Expenditure</b>	<b>(38,092)</b>	
(2,280)	(Loss) / gain on investment assets	(1,716)	
<b>22,524</b>	<b>Net Movement in Funds</b>	<b>(4,264)</b>	
	<b>Reconciliation of Funds</b>		
593,942	Total funds brought forward	616,466	
<b>616,466</b>	<b>Total Funds Carried Forward</b>	<b>612,202</b>	

**BALANCE SHEET as at 31 March 2018**

as at 31 March 2017			as at 31 March 2018		Notes
£	£		£	£	
		<b>Fixed Assets</b>			
555,457		Investments	530,598	530,598	5
	<b>555,457</b>				
		<b>Current Assets</b>			
61,009		Short term Investment in SBC loans fund	84,214		6
0		Debtors	2,764		
	<b>61,009</b>	<b>Total Current Assets</b>		<b>86,978</b>	
		<b>Current Liabilities</b>			
		Creditors:			
0		Amounts falling due within 1 year		(5,374)	
		<b>Net Current Assets</b>		<b>81,604</b>	
	<b>616,466</b>	<b>Total Net Assets</b>		<b>612,202</b>	
		<b>The Funds of the Charity</b>			
(616,466)		Restricted income funds		(612,202)	7
	<b>(616,466)</b>	<b>Total Charity Funds</b>			

All of the charity's activities are continuing.

The Accounting Policies on pages 11 and 12 and the Notes on pages 13 to 16 form part of these Financial Statements.

The unaudited accounts were issued on xx June 2018.

David Robertson CPFA  
Chief Financial Officer  
xx June 2018

Shona Haslam  
Trustee  
Scottish Borders Council Common Good Funds  
XX June 2018

## 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

2016/17 £		2017/18 £
127	Bank Interest Receivable	292
33,117	Income from Investment Portfolio	35,069
<b>33,244</b>		<b>35,361</b>

### 3 Charitable Activities

The charitable activities during 2017/18 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.

During the financial year Scottish Borders Council approved the change in investment Fund from Newton Real Return Fund to Kames Capital Diversified Income Fund. At 31 March 2018 all investments were with the Kames Capital Investment.

### 6 Short Term Investments in SBC Loans Fund

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

## 7 Restricted Funds

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

2016/17 Balance	Fund	Income	Expenditure	2017/18 Balance
£		£	£	£
423	Alex Grieves Bequest (1)	13	17	419
289	Alex Grieves Bequest (2)	9	23	275
874	Andrew, Agnes & John Kyle	78	83	869
3,870	Ayton War Memorial Fund	103	3,017	956
6,547	Berwickshire Educational Trust	928	240	7,235
423	Brown Bequest	11	16	418
320	C W Dunnet Award	26	11	335
811	Campbell Calderhead Prize	50	28	833
16,612	Clive Craig-Brown Bequest	416	658	16,370
3,056	Col. Jem Richard Prize Fund	178	106	3,128
943	Coldstream Guards Prize	81	37	987
62	Coldstream War Memorial	2	4	60
1,589	Dalrymple's Mortification	40	63	1,566
1,428	Dr Milne Memorial Fund	80	50	1,458
105,342	Dunlop Bequest	2,642	4,176	103,808
1,827	Edgar Bequest	46	72	1,801
3,173	Elliot Mortification	80	126	3,127
3,226	Ewan Trust	81	128	3,179
1,096	Ex Provost Mercer's Bequest No1	30	96	1,030
209	Ex Provost Mrs Laidlaw's Benifaction	6	14	201
4,876	F W Dobson VC	369	193	5,052
17,170	Ferguson D Dunwhinny Fund	426	680	16,916
2,428	G D Gibson's Bequest	66	158	2,336
17,133	Geoffrey Simpson Bequest	1,713	661	18,185
10,337	George D Gibson's Bequest	283	409	10,211
578	Hans D Langmack Prize Fund	42	23	597
1,878	Henry Laidlaw Trust	51	122	1,807
621	I Wallace Bequest	28	55	594
23,144	J A S Henderson Memorial Scholarship	2,675	604	25,215
2,921	J Purves Bequest	192	113	3,000
1,051	James Robertson Trust	66	36	1,081
84	James West Brown's Bequest	2	5	81
1,382	Jane Grieve Endowment	83	48	1,417
1,809	Jean Kincaird Grieve Endowment	103	63	1,849
11,367	Jedburgh Coal Fund	452	421	11,398
1,535	Jedburgh Public Library Fund	39	61	1,513
1,532	John Herbertson Bequest	41	100	1,473
239	John Hunter's Bequest	6	16	229
663	John Jamieson Prize Fund	37	23	677



**Scottish Borders Council Charitable Trusts**  
**Audited Annual Report and Financial Statements For The Year To 31 March 2018**

96	John Murray's Bequest	3	6	92
351	Joshua Goodfellow's Bequest	9	13	347
625	Kelso Library Book Fund	16	25	616
626	Kennedy Medal Fund	39	20	645
1,680	Kenneth Cochrane Library Fund	42	67	1,655
27	Lands at Calfward	1	1	27
262	Longformacus Public Park	7	18	251
3,981	Marjoribanks Bequest	102	162	3,921
839	Mary Dickson Prize Fund	62	32	869
556	McKinley Trust	14	20	550
22,399	Miss A T Waldie Trust	796	940	22,255
838	Mr & Mrs W F Johnstone Fund	42	30	850
424	Mrs Adams Bequest	10	14	420
976	Mrs Clelland Memorial Prize	55	34	997
2,834	Mrs Hobkirk's Fund	71	112	2,793
175	Mrs M Cheetham Bequest	5	11	169
2,960	Murray Medal Fund	210	113	3,057
261	Peebles Public Library	7	10	258
22,665	Peeblesshire Educational Trust	2,394	2,789	22,270
25,652	R D Forman's Bequest	644	1,017	25,279
4,779	Raith's Mortification	121	192	4,708
1,248	Robert Meggit's Bequest	34	81	1,201
53,037	Robert Watson Fund	1,435	3,456	51,016
102,212	Roxburghshire Educational Trust	10,477	9,444	103,245
3,600	Selkirk Library Fund	90	143	3,547
12,495	Selkirkshire Educational Trust	1,317	1,487	12,325
26,093	Simpson D Dunwhinny Fund	1,900	902	27,091
6,499	Sir John Robert's Bequest	163	257	6,405
21,998	Sir Walter Leitch Scholarship	2,674	3,326	21,346
1,260	Special Air Service Reg. Fund	92	50	1,302
12,315	T J S Roberts Trust	309	488	12,136
2,375	Thomas B Williamson Bequest	60	94	2,341
1,290	Walter Geddes Prize Fund	70	46	1,314
1,063	Waugh Bequest	24	37	1,050
24,344	William Forrester's Bequest	659	1,586	23,417
463	William Laidlaw Memorial Fund	12	18	457
301	Wm Brown's Bequest	8	15	294
<b>616,466</b>		<b>35,548</b>	<b>39,812</b>	<b>612,202</b>

## 8 Restricted Funds

The table below details the restricted funds which will transfer to the Scottish Borders Council Welfare Trust and Scottish Borders Council Community Enhancement Trust from 1<sup>st</sup> April 2018.

Fund	Transferred to	2017/18 Reserve £
Alex Grieves Bequest (1)	SBC Community Enhancement (SC044764)	419
Alex Grieves Bequest (2)	SBC Community Enhancement (SC044764)	275
Ayton War Memorial Fund	SBC Community Enhancement (SC044764)	956
Brown Bequest	SBC Welfare Trust (SC044765)	418
Clive Craig-Brown Bequest	SBC Welfare Trust (SC044765)	16,370
Coldstream War Memorial	SBC Community Enhancement (SC044764)	60
Dalrymple's Mortification	SBC Welfare Trust (SC044765)	1,566
Dunlop Bequest	SBC Welfare Trust (SC044765)	103,808
Edgar Bequest	SBC Welfare Trust (SC044765)	1,801
Elliot Mortification	SBC Welfare Trust (SC044765)	3,127
Ewan Trust	SBC Welfare Trust (SC044765)	3,179
Ex Provost Mercer's Bequest No1	SBC Welfare Trust (SC044765)	1,030
Ex Provost Mrs Laidlaw's Benifaction	SBC Welfare Trust (SC044765)	201
Ferguson Dalwhinny Fund	SBC Welfare Trust (SC044765)	16,916
G D Gibson's Bequest	SBC Welfare Trust (SC044765)	2,336
George D Gibson's Bequest	SBC Welfare Trust (SC044765)	10,211
Henry Laidlaw Trust	SBC Welfare Trust (SC044765)	1,807
James West Brown's Bequest	SBC Welfare Trust (SC044765)	81
Jedburgh Coal Fund	SBC Welfare Trust (SC044765)	11,398
John Herbetson Bequest	SBC Welfare Trust (SC044765)	1,473
John Hunter's Bequest	SBC Welfare Trust (SC044765)	229
John Murray's Bequest	SBC Welfare Trust (SC044765)	92
Joshua Goodfellow's Bequest	SBC Welfare Trust (SC044765)	347
Lands at Calfward	SBC Welfare Trust (SC044765)	27
Longformacus Public Park	SBC Community Enhancement (SC044764)	251
Marjoribanks Bequest	SBC Welfare Trust (SC044765)	3,921
McKinley Trust	SBC Welfare Trust (SC044765)	550
Miss A T Waldie Trust	SBC Welfare Trust (SC044765)	22,255
Mrs Adams Bequest	SBC Welfare Trust (SC044765)	420
Mrs Hobkirk's Fund	SBC Welfare Trust (SC044765)	2,793
Mrs M Cheetham Bequest	SBC Welfare Trust (SC044765)	169
R D Forman's Bequest	SBC Welfare Trust (SC044765)	25,279
Raith's Mortification	SBC Welfare Trust (SC044765)	4,708
Robert Meggit's Bequest	SBC Welfare Trust (SC044765)	1,201
Robert Watson Fund	SBC Welfare Trust (SC044765)	51,016
Simpson Dalwhinny Fund	SBC Welfare Trust (SC044765)	27,091
Sir John Robert's Bequest	SBC Welfare Trust (SC044765)	6,405
T J S Roberts Trust	SBC Welfare Trust (SC044765)	12,136
Thomas B Williamson Bequest	SBC Welfare Trust (SC044765)	2,341
Waugh Bequest	SBC Welfare Trust (SC044765)	1,050
William Forrester's Bequest	SBC Welfare Trust (SC044765)	23,417
William Laidlaw Memorial Fund	SBC Welfare Trust (SC044765)	457
Wm Brown's Bequest	SBC Community Enhancement (SC044764)	294

**INDEPENDENT AUDITOR'S REPORT**  
**to the trustees of Scottish Borders Council Charitable Trusts and the**

## ADDITIONAL INFORMATION

### Contact Details

For further information on the SBC Charitable Trusts, please contact:

Kirsty Robb	Telephone: 01835 –825249
Pension & Investment Manager	E-mail: <a href="mailto:krobb@scotborders.gov.uk">krobb@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

**UNAUDITED MEMBERS' REPORT AND  
FINANCIAL STATEMENTS**

**BRIDGE HOMES LLP**  
**Registration Number: SO304775**

**FOR THE YEAR TO 31 MARCH 2018**

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## MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2018.

### Reference and Administrative Information

<b>Company Name</b>	Bridge Homes LLP
<b>Company Registration Number</b>	SO304775
<b>Registered Office</b>	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.

<b>Auditor</b>	KPMG LLP 191 West George Street Glasgow G2 2LJ
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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 2017/18, Bridge Homes did not acquire any more properties, so the property portfolio remains 45 houses and flats. Orchard and Shipman continues to manage these on behalf of Bridge Homes.



The managing agent's performance is being monitored by Council Officers, and some minor issues have experienced due to staff turnover within the managing agent's local Edinburgh office. However these have been successfully resolved.

Council Officers have been negotiating the intended acquisition upon completion of 5 x 2 bedroom houses at Broomlands Kelso. It is anticipated that these will be completed around October 2018. Unfortunately the bad winter weather conditions have adversely impacted on the construction of 4 flats in Peebles which did not complete on programme during 2017/18. It is anticipated that these will now be completed and acquired by Bridge Homes in May and July 2018.

There has been no further progress made towards the delivery of the proposed Lilliesleaf project. The Administrator is dealing with winding up the developer's business.

As a result of increasing labour and materials costs, the constraints of the funding mechanism, and the impending initiative deadline of 31 March 2019 for completion of units, it is now considered extremely unlikely that Bridge Homes will be able to acquire additional units. Therefore it is anticipated that the acquisition of the above 9 properties will complete the end of the development phase of Bridge Homes activity, by delivering a total of 54 homes.

This report was signed on behalf of the Members by

**David Robertson CPFA**  
**Designated Member**  
**Scottish Borders Council**  
**26 June 2018**

## 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 2018

2016/17 Restated £		2017/18 £	Notes
164,549	Turnover	222,550	1
(41,045)	Cost of Sales	(47,943)	2
<b>123,504</b>	<b>Gross Profit</b>	<b>174,607</b>	
(20,569)	Administrative Expenses	(24,934)	3
27,373	Revaluations	0	
<b>130,308</b>	<b>Operating Profit/(Loss)</b>	<b>149,672</b>	
(82,146)	Interest Payable & Similar Expenses	(90,733)	4
<b>48,162</b>	<b>Profit/(Loss) For The Financial Year Available For Discretionary Division Among Members</b>	<b>58,939</b>	<b>5</b>
581,767	<b>Other Comprehensive Income</b> Revaluation Gain/(Loss) on Property	0	
<b>629,929</b>	<b>Total Comprehensive Income</b>	<b>58,939</b>	

The LLP's turnover and expenses all relate to continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2018

2016/17 Restated £		2017/18 £
48,162	Profit/(Loss) For The Financial Year	58,939
<b>48,162</b>	<b>Total Recognised Gains/(Losses) For The Financial Year</b>	<b>58,939</b>

## BALANCE SHEET as at 31 March 2018

2016/2017 Restated £		2017/2018		Notes
		£	£	
<b>5,863,810</b>	<b>Fixed Assets</b>			
	Property, Plant and Equipment		<b>5,863,810</b>	6
	<b>Current Assets</b>			
93,413	Debtors	114,185		7
30,327	Cash at Bank	124,413		
<b>123,740</b>				
	<b>Creditors</b>			
<b>(17,980)</b>	Amounts falling due within 1 year	<b>(73,898)</b>		8
<b>105,761</b>	<b>Net Current Assets/(Liabilities)</b>		<b>164,701</b>	
<b>5,969,571</b>	<b>Net Assets/(Liabilities) attributable to Members</b>		<b>6,028,511</b>	
	<b>Represented By:</b>			
4,600,602	Loans and Other Debts due to Members		<b>4,600,602</b>	9
	<b>Members' Other Interests</b>			
759,002	Capital Account	759,002		10
10,703	Profit and Loss Reserve	69,643		
599,264	Revaluation Reserve	599,264		
<b>5,969,571</b>	<b>Total Members' Interests</b>		<b>6,028,511</b>	

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

These financial statements were approved by the members and authorised for issue on 26 June 2018 and are signed on their behalf by:

**David Robertson CPFA**  
 Designated Member  
 Scottish Borders Council  
 26 June 2018

**Company Registered Number: SO304775**

## CASH FLOW for the year ended 31 March 2018

2016/17 Restated £		2017/18 £
	<b>Reconciliation of Profit/(Loss) to Net Cash Flow from Operating Activities</b>	
48,162	Profit/(Loss) for the Financial Year	58,939
54,773	Adjustments to Profit/Loss for Non Cash Movements	90,735
6,176	(Increase)/Decrease in Debtors	(20,772)
(11,658)	Increase/(Decrease) in Creditors due within 1 year	55,918
<b>97,453</b>	<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>184,820</b>

2016/17 Restated £		2017/18 £
	<b>Cash Flow Statement</b>	
97,453	<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	184,820
	<b>Investing Activities</b>	
(2,587,282)	Purchase of investment property	0
<b>(2,587,282)</b>	<b>Net Cash Inflow/(Outflow) from Investing Activities</b>	<b>0</b>
	<b>Financing Activities</b>	
330,000	Capital Received	0
2,257,282	Cash received from loans and other borrowing	0
(82,146)	Interest Payable	(90,733)
<b>2,505,136</b>	<b>Net Cash Inflow/(Outflow) from Financing Activities</b>	<b>(90,733)</b>
15,307	<b>Increase / (Decrease) in Cash</b>	<b>94,086</b>
<b>15,307</b>	<b>Movement in Cash in Period</b>	<b>94,086</b>

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2018

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve £	Loans & Other Debts Due To/From Members £	Total £
Balance at 1 April 2017	759,002	10,703	599,264	4600,602	5,969,571
Profit/(Loss) For The Year Available for Discretionary Division Among Members		58,939			58,939
Loan Funding Provided By Members					
Revaluations					
Capital Introduced By Members					
<b>Balance at 31 March 2018</b>	<b>759,002</b>	<b>69,643</b>	<b>599,264</b>	<b>4,600,602</b>	<b>6,028,511</b>

Restated	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	(37,459)	17,497	2,343,320	2,752,360
Profit/(Loss) For The Year Available for Discretionary Division Among Members		48,162			48,162
Loan Funding Provided By Members				2,257,282	2,257,282
Revaluations			581,767		581,767
Capital Introduced By Members	330,000				330,000
<b>Balance at 31 March 2017</b>	<b>759,002</b>	<b>10,703</b>	<b>599,264</b>	<b>4,600,602</b>	<b>5,969,571</b>

## 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<sup>1/2</sup> - 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

2016/17 £		2017/18 £
155,138	Rental Income	213,138
9,411	Revenue Grant	9,411
<b>164,549</b>		<b>222,550</b>

### 2 Cost of Sales

2016/17 £		2017/18 £
40,619	Management Charges	40,636
0	Insurance	5,659
218	Landlord Registration	495
208	Utilities	1,153
<b>41,045</b>		<b>47,943</b>

### 3 Administrative Expenses

2016/17 £		2017/18 £
11,007	Accountancy and Legal	12,490
0	Professional Fees	3,000
5,130	Audit	5,430
4,015	Estates and Housing	4,015
418	Miscellaneous	0
<b>20,569</b>		<b>24,934</b>

### 4 Interest Payable & Similar Charges

2016/17 £		2017/18 £
192	Bank Charges	40
82,146	Interest Payable to Local Authority	90,693
		<b>90,733</b>

## 5 Land and Buildings

2016/17 £		2017/18 £
2,587,282	Additions at Cost	0
609,140	Revaluations	0
<b>5,863,810</b>	NBV at 31 March	<b>5,863,810</b>

## 6 Debtors

2016/17 £		2017/18 £
0	Unpaid Rental Income	20,772
9,411	Grant for Central Support Costs	9,411
84,002	Other Debtors	84,002
<b>93,413</b>		<b>114,185</b>

## 7 Creditors: Amounts Falling Due Within One Year

2016/17 £		2017/18 £
0	Management Charges	1,620
0	Professional Fees	3,000
4,500	Audit	4,500
2,349	Accountancy	2,349
6,968	Legal Fees	13,044
4,163	Miscellaneous	4,163
0	Interest Payable to Local Authority	45,222
<b>17,980</b>		<b>73,898</b>

## 8 Loans & Other Debts Due To Members

2016/17 £		2017/18 £
<b>2,257,282</b>	Loan from Local Authority	<b>0</b>

## 9 Members' Capital

2016/17 £		2017/18 £
1	Initial Capital - Scottish Borders Council	1
1	Initial Capital – Scottish Futures Trust Investments Ltd	1
330,000	Capital Grant - Scottish Borders Council	0
<b>330,002</b>		<b>2</b>

## 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:

	Transaction	Debtor/ (Creditor) At 31 March 2018
	£	£
Loan	0	(4,600,602)
Legal Recharge	6,076	(6,076)
Revenue Grant	9,411	9,411
Service Charge	9,411	(9,411)
Loan Interest	90,693	(45,222)

## 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

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## CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

Suzy Douglas	Telephone: 01835 – 825881
Financial Services Manager	E-mail: <a href="mailto:sdouglas@scotborders.gov.uk">sdouglas@scotborders.gov.uk</a>
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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# Scottish Borders Supports LLP

Registered number SO305176

**UNAUDITED**

## Members' Annual Report and Financial Statements

For the year ended 31 March 2018



day services home care care homes independent living



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## Members' Annual Report

The Members present their Annual Report and Financial Statements for the year ended 31 March 2018.

### Principal Activity

The principal activity of Scottish Borders Supports LLP is the provision of Adult Social Care services.

The partnership employs 11 staff (11 full time equivalents) in 11 positions with a number of staff having more than one role.

### Designated Members

The Members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

SBC Nominees Limited.

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.

### SB Cares Trading Name

Scottish Borders Supports LLP and Scottish Borders Cares LLP are both Limited Liability Partnerships working with Scottish Borders Council to provide Adult Social Care Services and collectively trade under the name of SB Cares.

Scottish Borders Supports LLP receives adult care services to Scottish Borders Cares LLP.

## Members' Annual Report *(continued)*

### Governance

The two Limited Liability Partnerships (LLPs) that trade as SB Cares are managed by a single Board of Management which is subject to the provision of the individual Members Agreement for each of the LLPs. Neither Scottish Borders Supports LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in this 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 SB Cares 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.

SB Cares' Officers meet with Scottish Borders Council quarterly at the Council's Major Contracts' Governance Group Committee which replaced its Limited Liability Partnership - Strategic Governance Group during 2017. This Group enables the Council to subject SB Cares to appropriate review and scrutiny. The public minutes and papers from this Committee can be found on the Scottish Borders Council website ([www.scotborders.gov.uk](http://www.scotborders.gov.uk)).

In addition the Chief Executive of Scottish Borders Council (the Council) may at any time invite the SB Cares' 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.

### 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'.

Scottish Borders Supports LLP transacts with one of its members, Scottish Borders Council to provide adult social care services. These transactions are covered by a Service Provision Agreements between the two organisations which commenced on 1 April 2015.

## Members' Annual Report *(continued)*

### 2017/18 Financial Review – Scottish Borders Supports LLP

These financial statements represent the results of the year of trading from 1 April 2017 until 31 March 2018. In the year ended 31 March 2018, Scottish Borders Supports LLP generated a small profit of £44k.

	Year Ending 31 March	
	2017 £000	2018 £000
<b>Total Comprehensive Income/(Loss) for the year</b>	<b>(310)</b>	<b>44</b>
<i>Remove Accounting Standard Adjustments:</i>		
Movement in Annual Leave Accrual	4	1
<b>Income/(Loss) for the year on a Management Accounts Basis</b>	<b>(306)</b>	<b>45</b>

Overall the LLP performed as expected for the year of trading and was able to provide Scottish Borders Council an efficiency contribution rebate of £465k on the contract for services for the year ending 31 March 2018.

The Balance Sheet of the LLP has strengthened to a position of £24k of net assets as at 31 March 2018, compared with a net liabilities position of £20k at the end of the previous financial year.

Scottish Borders Supports LLP's financial statements have been prepared on a going concern basis.

## Members' Annual Report *(continued)*

### Business Review – SB Cares

As stated previously Scottish Borders Supports LLP is one of the two entities which combine to trade as SB Cares. As the Board of Management sets the strategic objectives and oversees the performance and management of the two LLPs as a combined whole, the Business Review is being presented as a joint review of both Scottish Borders Cares LLP and Scottish Borders Supports LLP.

### Strategic Context

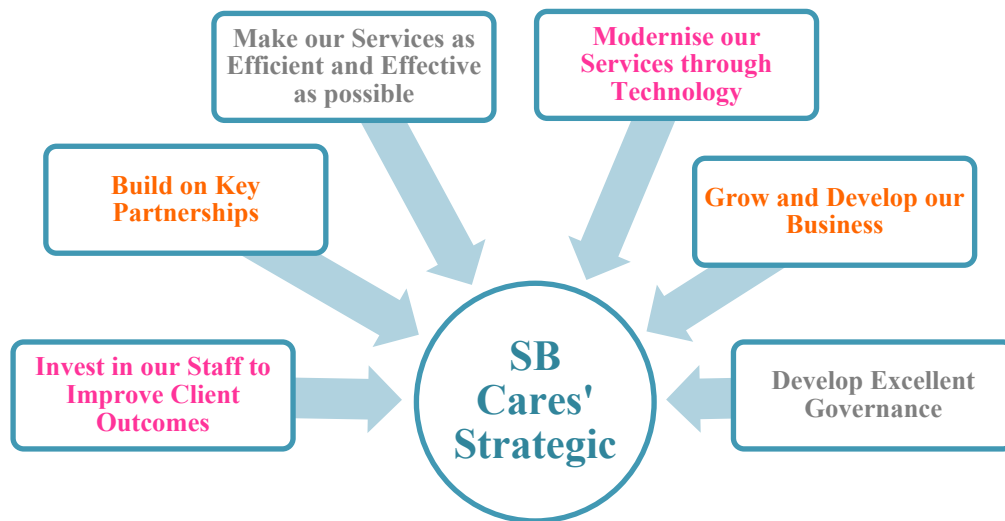
**SB Cares' Vision** is to:



SB Cares will focus on our three **Strategic Aims** in order to support the delivery of this Vision and these are:

<b>Quality</b>	To have a team of staff who deliver seamless, high quality care and support to every client
<b>Efficiency</b>	To deploy our staff, resources and finances as efficiently and effectively as possible, ensuring best value
<b>Business</b>	To expand and grow the services we provide for the people of the Scottish Borders and generate income to invest in future care services

These Strategic Aims underpin all of our priorities and actions, with Quality being the key aim of all that we do. The Board of Management has agreed six priorities on which the Board and the Senior Management Team have developed action plans for delivering, developing and improving the services to our clients. **Our Priorities** are as follows:



## Members' Annual Report *(continued)*

### 2017/18 – Summary of Our Activities

2017/18 has been a very busy and successful year for SB Cares and this report, at the end of our third year of trading, provides an overview of the activities throughout the year.

#### *Key Facts and Figures for 2017/18*

SB Cares supported over 12,000 clients, families and carers through the provision of its adult social cares services throughout the Scottish Borders by:

- Delivering over **15,000 visits per week** to enable more than **900 people** to remain in their own homes.
- Delivering **11,840 pieces** of additional ability equipment to support 2,336 new clients to live more independently, with a total of **9,818 clients** using equipment on loan from the Community Equipment Service at the end of the financial year.
- Supporting **1,545** clients and another **291 individual homes** in supported housing schemes to maintain independence with 24 hour monitored personal alarms
- Providing 24 hour support through **143 beds** in a care home environment for those people with higher level needs
- Supporting clients through our day services enabling people to remain at home and providing respite to families and carers

#### *Delivering Our Strategic Priorities during 2017/18*

- ✓ **Invest in our Staff to Improve Client Outcomes**  
SB Cares has:

- a. Improved its Support Worker induction programme in order to continue to improve quality of care to clients;
- b. updated its approach to recruitment through the introduction of rolling annual recruitment for Support Workers;
- c. implemented revised organisational structures for the management of both Care and Financial & Commercial Services, with additional focus on quality;
- d. reviewed Homecare operations and is in the process of implementing new positions to support improving quality of care, and effectiveness of scheduling visits; and
- e. agreed a revised Communication, Engagement and Marketing Strategy.

## Members' Annual Report *(continued)*

### ✓ **Build on Key Partnerships**

*SB Cares has:*

- a. established a new Discharge to Assess Care Home at Craw Wood, Tweedbank to provide a short term supported transition from acute medical care in hospital prior to returning home, and this has been done under the Integrated Joint Board for Health and Social Care in partnership with NHS Borders; and
- b. worked with Borders College to develop new social care courses, which SB Cares staff are able to participate in as part of their development.

### ✓ **Make our Services as Efficient and Effective as possible**

*SB Cares has:*

- a. implemented a staffing model across the Scottish Borders for local home care teams which provides a consistent, more responsive and flexible 7 day service;
- b. implemented the first phase of a dedicated 4x4 vehicle fleet for the home care teams which supports improved continuity of care provision to clients during adverse winter weather, and opens up employment opportunities to individuals with limited personal vehicle access;
- c. established the first single care registration for a co-located older people and learning disabilities day service in Peebles which has resulted in improved outcomes and experiences for clients in both services; and
- d. Changed the approach to the provision of meals within our Care Homes reducing costs without impacting on quality or flexibility of service.

### ✓ **Modernise our Services through Technology**

*SB Cares has:*

- a. transitioned the alarm monitoring and out of hours' telephony services of Border Care to East Lothian Council's centre of excellence in order to secure the benefits new technology for call handling, which will enable us to provide a cost effective services and deliver increased service's resilience and improved overall caller experience; and
- b. transferred its Community Equipment Service into a purpose built facility with modern cleaning facilities and delivery vehicles with bespoke fittings to separate issued and returned equipment, all of which contribute to improvements in infection control.

### ✓ **Grow and Develop our Business**

*SB Cares has:*

- a. sustained better than expected client retention following the significant price increase for Bordercare Alarm services agreed by the Council as part of its charging reviews, resulting in approximately £150k increased turnover.

### ✓ **Develop Excellent Governance**

*SB Cares has:*

- a. continued to improve the quality care with 85% of their registered care services receiving Care Inspectorate grades of Good or above.
- b. engaged effectively with the Council's Major Contracts Governance Group, Audit and Scrutiny Committee and Corporate Management Team and delivered significant elements of the Health and Social Care Partnership's strategic agenda.

## Members' Annual Report *(continued)*

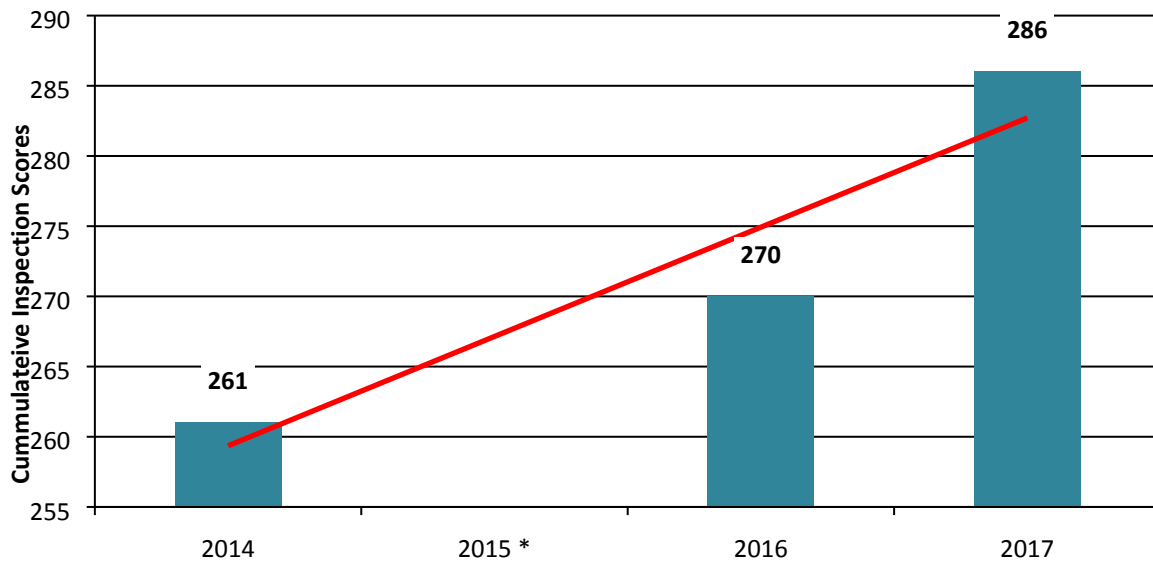
### Quality of Our Care

day services home care care homes independent living



Our registered care services continue to be regulated by the Care Inspectorate and are inspected regularly through their programme. During 2017/18, SB Cares continued to see an overall improvement in the quality of the scores achieved in many of our registered services and the chart below shows the cumulative scores demonstrates these improvements.

### SB Cares' Care Inspection Score



\* 2015 SB Cares first registered services no inspections took place

In addition, the proportion of our registered services achieving very good and above has risen from 15% in 2015/16 to 39% in 2017/18.



## Members' Annual Report *(continued)*

### Risk Management

#### ***Corporate Risk Management***

SB Cares recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

SB Cares has adopted the Council's corporate risk policy to embed risk management into its business practices. SB Cares has continued to monitor, manage and mitigate risk through the proactive management of its risk register and associated actions.

The register is reviewed by reflect risks and mitigations associated with the delivery of its current 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.

The Council's Audit & Risk function, as part of the Service Level Agreement, carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management. The Council's Head of Audit and Risk and Risk Manager attend the Board of Management meetings on a quarterly basis.

#### ***Public Sector Financial Pressures***

The overall pressure on public finances continues to be the dominant risk to SB Cares. Budget pressures and service reduction within the Council has an effect on SB Cares as it provides key services to this main client. SB Cares continues to monitor the change in business operation and address the mitigation of risk proactively. This is accomplished through working closely with its key partners and our clients as well as reviewing our business model to secure continuous improvement.

#### ***Financial Management***

Cash flow management procedures are in place to ensure that resources are managed effectively.

The Board of Management receive a monthly update on the financial position for SB Cares and this includes narrative commentary on movements and updating of the forecast out-turn for the organisation.

## Members' Annual Report *(continued)*

### Combined Financial Position –SB Cares – 2017/18

SB Cares as a trading entity reports to the Board of Management on a monthly basis, presenting the financial position on a management accounting basis (i.e. excluding the impact of the accounting for retirement benefits). This allows informed monitoring and evaluation of the trading financial position. The table below shows the combined position for the 2 LLPs, showing the Comprehensive Income and Expenditure reported position per the 2017/18 Annual Accounts and the underlying trading position for 2017/18.

	Year Ending 31 March 2018		
	SB Supports LLP £000	SB Cares LLP £000	Total SB Cares £000
<b>Total Comprehensive Income/(Loss) for the year</b>	<b>44</b>	<b>(735)</b>	<b>(691)</b>
<i>International Accounting Standard Adjustments:</i>			
IAS 119 Retirement Benefits Adjustments	0	723	<b>723</b>
SBC Service Efficiency Contract Rebate	465		<b>465</b>
Movement in Annual Leave Accrual	(1)	6	<b>5</b>
<b>Income/(Loss) for the year on a Management Accounts Basis</b>	<b>508</b>	<b>(6)</b>	<b>502</b>

The budget was fully reviewed and revised in June/July 2017 and the SB Cares Board of Management have received regular monitoring reports on progress during the year. An overall assessment of the combined results of the Scottish Borders Supports and Scottish Borders Cares LLPs has resulted in the generation of an efficiency contribution on the annual contract fee for services of **£465k** on top of previously achieved reductions in the contract.

The table below identifies what SB Cares has been able to contribute through contractual rebates as part of its trading arrangements with the Council:

	2015/16 £000	2016/17 £000	2017/18 £000
Recurring Savings returned to SBC:			
2015/16	480	480	480
2017/18			465
<b>Total Recurring Savings</b>	<b>480</b>	<b>480</b>	<b>945</b>
One-Off Savings returned to SBC - 2016/17		600	
<b>Annual Savings</b>	<b>480</b>	<b>1,080</b>	<b>945</b>
<b>% of Contractual Management Fee</b>	<b>3%</b>	<b>7%</b>	<b>6%</b>
<b>Cumulative Savings</b>	<b>480</b>	<b>1,560</b>	<b>2,505</b>

## Members' Annual Report *(continued)*

This year's contribution has been achieved by a variety of efficiency projects undertaken during the year including:

- ✓ roll out of improved Home Care scheduling and rotas;
- ✓ fleet optimisation activity especially in Home Care and the Community Equipment Service;
- ✓ implementing a new meal service within Care Homes; and
- ✓ reviewing the shopping service.

In conclusion the Members Report and Financial Statements for the year ended 31 March 2018, demonstrate that SB Cares continues to improve and drive forward with its service and financial priorities.

The Members' Annual Report was signed on behalf of Members by

**[SIGNATURE REQUIRED]**

**Philip Barr**

**For and on behalf of  
Scottish Borders Council**

*Designated member*

**[date]**

## 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 SB Cares' website. 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 2018

2017		2018	Notes
£000		£000	
17,538	Turnover	18,272	1
(17,075)	Cost of Sales	(17,221)	3
<b>463</b>	<b>Gross Profit / (Loss)</b>	1,051	
(779)	Administrative Expenses	(1,012)	4
<b>(316)</b>	<b>Profit / (Loss) on Ordinary Activities after Taxation</b>	<b>39</b>	
6	Interest Receivable and Similar Income	5	5
<b>(310)</b>	<b>Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members</b>	<b>44</b>	
0	Other Comprehensive Income/(Loss)	0	
	<b>Total Comprehensive Income/(Loss) for the year</b>	<b>44</b>	

Scottish Borders Supports LLP's turnover and expenses all relate to continuing operations.

## Balance Sheet

at 31 March 2018

2017		2018	
£000		£000	
<b>678</b>	<b>Fixed Assets</b>	<b>849</b>	<b>7</b>
	<b>Current Assets</b>		
74	Stock	87	8
221	Debtors	669	9
2,946	Cash at Bank and in Hand	2,038	
<b>3,241</b>		<b>2,794</b>	
	<b>Creditors</b>		
(3,939)	Amounts falling due within 1 year	(825)	10
<b>(698)</b>	<b>Net Current Assets / (Liabilities)</b>	<b>(825)</b>	
<b>(20)</b>	<b>Net Assets / (Liabilities) attributable to Members</b>	<b>24</b>	
	<b>Represented by:</b>		
	<b>Members' Other Interests:</b>		
0	Members Capital Account	0	
20	Profit and Loss Reserve	(24)	
<b>20</b>		<b>(24)</b>	
<b>20</b>	<b>Total Members' Interests</b>	<b>(24)</b>	

## Statement of Changes in Net Assets Attributable to Members

*For the year ended 31 March*

	Members Capital Account £000	Profit & Loss Reserve £000	Total Members Interests £000
<b>Balance at 1 April 2016</b>	<b>0</b>	<b>290</b>	<b>290</b>
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members		(310)	<b>(310)</b>
<b>Balance at 31 March 2017</b>	<b>0</b>	<b>(20)</b>	<b>(20)</b>
<b>Balance at 1 April 2017</b>	<b>0</b>	<b>(20)</b>	<b>(20)</b>
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members		44	<b>44</b>
<b>Balance at 31 March 2018</b>	<b>0</b>	<b>24</b>	<b>24</b>

The Accounting Policies on pages 17 to 19 and the Notes to the Accounts on pages 20 to 23 form an integral part of these Financial Statements.

These financial statements were approved by the Members and authorised for issue on **TBC 2018** and were signed on its behalf by:

**[SIGNATURE REQUIRED]**

**Philip Barr**  
 For and on behalf of  
**Scottish Borders Council**  
*Designated member*

**[DATE tbc]**

Company registered number: **SO305176**

## 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.

### *(i) 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 statement 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.

### *(ii) 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 Council until March 2020. Thus Members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### *(iii) 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'.

### *(iv) Members' Capital*



The capital requirements of the LLP are determined from time to time by the Members. No interest is paid on capital.

## **Accounting Policies** *(continued)*

### **(v) 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.

### **(vi) 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.

### **(vii) 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.

### **(viii) 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.

### **(ix) 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.

### **(x) 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.

## Accounting Policies *(continued)*

### *(xi) 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.

### *(xii) 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.

### *(xiii) 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")

## Notes to Annual Accounts

(forming part of the financial statements)

### 1 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

### 2 Staff Numbers and Costs

The average Full Time Equivalent (FTE) number of persons employed by the LLP during the year, analysed by category, was as follows:

	Number of employees (FTE)	
	2016/17	2017/18
Administration	11	

<b>Staff costs for the above persons were:</b>	£000	£000
Wages and salaries	419	485
Social security costs	43	45
Pension costs	56	71
<b>Total Staff Costs</b>	<b>518</b>	<b>601</b>

### 3 Cost of Sales

Included in the Profit and (Loss) statement for the year are the following amounts:

	Year to 31 March	
	2017 £000	2018 £000
Cost of Services from Scottish Borders Cares LLP	14,890	14,868
Property and Energy Costs	405	426
Transport and Travel Costs	492	476
Furniture, Fixtures and Equipment Costs	517	508
Other Cost of Sales	771	942
<b>Total Cost of Sales</b>	<b>17,075</b>	<b>17,221</b>

## Notes to Annual Accounts *(continued)*

### 4 Administration Expenses

Included in the Profit and (Loss) statement for the year are the following amounts:

	Year to 31 March	
	2017 £000	2018 £000
Staff Costs (see Note 2)	518	<b>601</b>
Depreciation (See Note	28	<b>99</b>
Auditors' Remuneration *	22	<b>26</b>
Other Administration Expenses	211	<b>286</b>
	779	<b>1,012</b>

\*This represents the cost of the audit of these financial statements

### 5 Other Interest Receivable and Similar Items

Included in the Profit and (Loss) statement for the year are the following amounts:

	Year to 31 March	
	2017 £000	2018 £000
Other Interest Receivable	6	<b>5</b>
	6	<b>5</b>

### 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.

## Notes to Annual Accounts *(continued)*

### 7 Fixed Assets – to check

	IT Systems & Equipment	Plant & Equipment	Rehabilitation equipment	Total
	£000	£000	£000	£000
<b>Book Value as at 31 Mar 2017</b>	<b>20</b>	<b>65</b>	<b>628</b>	<b>713</b>
Additions During Year	0	48	222	270
<b>Book Value as at 31 Mar 2018</b>	<b>20</b>	<b>113</b>	<b>850</b>	<b>983</b>
<b>Accumulated Depreciation to 31 Mar 2017</b>	<b>(5)</b>	<b>(2)</b>	<b>(28)</b>	<b>(35)</b>
Depreciation Charge for year	(7)	(13)	(79)	(99)
<b>Accumulated Depreciation to 31 Mar 2018</b>	<b>(12)</b>	<b>(15)</b>	<b>(107)</b>	<b>(134)</b>
<b>Net Book Value as at 31 Mar 2017</b>	<b>15</b>	<b>62</b>	<b>601</b>	<b>678</b>
Change in Net Book Value during Year	(7)	35	142	170
<b>Net Book Value as at 31 Mar 2018</b>	<b>8</b>	<b>97</b>	<b>743</b>	<b>848</b>

### 8 Stock

	As at 31 March	
	2017 £000	2018 £000
Raw Materials and Consumables	74	87
<b>Total Stock</b>	<b>74</b>	<b>87</b>

### 9 Debtors

	As at 31 March	
	2017 £000	2018 £000
Trade debtors	21	59
Amounts owed by Group Undertakings	55	335
Prepayments and Accrued Income	256	275
<b>Total Debtors</b>	<b>221</b>	<b>669</b>

## Notes to Annual Accounts *(continued)*

### 10 Creditors: Amounts falling due within One Year

	As at 31 March	
	2017 £000	2018 £000
Trade Creditors	18	47
Amounts owed to Group Undertakings	366	372
Value Added Tax	507	523
Accruals and Deferred Income	2,341	2,618
Other Creditors	706	59
<b>Total Creditors: Amounts falling due within One Year</b>	<b>3,939</b>	<b>3,619</b>

### 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 Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

## Independent Auditor's Report to the Members of Scottish Borders Supports LLP

TO BE INSERTED AFTER AUDIT



## Reference and Administration Information

<b>Company Name</b>	Scottish Borders Supports LLP
<b>Company Registration Number</b>	SO305176
<b>Registered Office</b>	Council Headquarters Newtown St Boswells MELROSE Scottish Borders TD6 0SA
<b>Statutory Auditor</b>	KPMG LLP Chartered Accountants Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
<b>Bankers</b>	Bank of Scotland Level 6 110 St Vincent Street GLASGOW G2 5ER

## Contact Information

For further information on Scottish Borders Supports LLP, please contact

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Finance and Commercial Director  
SB Cares  
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Newtown St Boswells  
MELROSE  
TD6 0SA

Telephone: [01835 825016](tel:01835825016)  
Email: [info@sbcare.co.uk](mailto:info@sbcare.co.uk)  
Website: [sbcare.co.uk](http://sbcare.co.uk)

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# Scottish Borders Cares LLP

Registered number SO305156

**UNAUDITED**

## Members' Annual Report and Financial Statements

For the year ended 31 March 2018



**SBCARES**

*in safe hands*

day services home care care homes independent living

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## Members' Annual Report

The Members present their Annual Report and Financial Statements for the year ended 31 March 2018.

### Principal Activity

The principal activity of Scottish Borders Cares LLP is the provision of Adult Social Care services.

The partnership employs **876** staff (**550** full time equivalents) in **181** positions with a number of staff having more than one role.

These financial statements represent the results of the year from 1 April 2011 until 31 March 2018.

### Designated Members

The Members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

SBC Nominees Limited.

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.

### SB Cares Trading Name

Scottish Borders Cares LLP and Scottish Borders Supports LLP are both Limited Liability Partnerships working with Scottish Borders Council to provide Adult Social Care Services and collectively trade under the name of SB Cares.

Scottish Borders Cares LLP provides adult care services to Scottish Borders Supports LLP.

## **Members' Annual Report** *(continued)*

### **Governance**

The two Limited Liability Partnerships (LLPs) that trade as SB Cares are managed by a single Board of Management which is subject to the provision of the individual Members Agreement for each of the LLPs. Neither Scottish Borders Cares LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in this 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 SB Cares 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.

SB Cares' Officers meet with Scottish Borders Council quarterly at the Council's Major Contracts' Governance Group Committee which replaced its Limited Liability Partnership - Strategic Governance Group during 2017. This Group enables the Council to subject SB Cares to appropriate review and scrutiny. The public minutes and papers from this Committee can be found on the Scottish Borders Council website ([www.scotborders.gov.uk](http://www.scotborders.gov.uk)).

In addition the Chief Executive of Scottish Borders Council (the Council) may at any time invite the SB Cares' 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.

### **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'.

Scottish Borders Cares LLP transacts with Scottish Borders Supports LLP not with Members. These transactions are covered by a five year Service Provision Agreements between the two LLPs which commenced on 1 April 2015.

## Members' Annual Report *(continued)*

### 2017/18 Financial Review – Scottish Borders Cares LLP

These financial statements represent the results of the year of trading from 1 April 2017 until 31 March 2018. In the year ended 31 March 2018, Scottish Borders Cares LLP generated a loss of £735k. The table below indicates the underlying trading (management accounting) basis has generated a small loss of £6k.

	Year Ending 31 March	
	2017 £000	2018 £000
<b>Total Comprehensive Income/(Loss) for the year</b>	<b>(2,676)</b>	<b>(735)</b>
<i>Remove Accounting Standard Adjustments:</i>		
IAS 19 Retirement Benefits Adjustments	2,627	<b>723</b>
Movement in Annual Leave Accrual	50	<b>6</b>
<b>Income/(Loss) for the year on a Management Accounts Basis</b>	<b>(0)</b>	<b>(6)</b>

The major movement in the Financial Statements is the net increase of £723k (£2,676k in 2016/17) in the actuarial valuation of the LLP's Pension Liability Obligation. The actuarial valuation undertaken specifically for the annual accounts, and is calculated in accordance with International Accounting Standard – Employee Benefits (IAS19) and uses a number of high level assumptions including inflation, asset growth, salary/pension increases 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.

The LLP is an admitted body within the Scottish Borders Pension Fund (the Fund), which is a Local Government Pension Scheme and, under the management arrangements of this scheme, the funding valuations are undertaken every three years (the Triennial Valuation). The most recent Triennial Valuation was undertaken during 2017/18 and this resulted in a full revaluation of the funding position for the LLP's pension obligations and included an assessment of employer contribution rates for the future 3 years. This recent valuation determined that the pension obligations of the LLP are more than covered by the assets under management by the Fund as at the valuation.

The final result of the Triennial Valuation was that the Fund's actuary estimates that the LLP's pension assets are equivalent to 113% of the projected liabilities. This is a positive result for the LLP and has also meant that the employer contribution rate will not be required to change in the next 3 years from the current levels.

Overall the LLP performed as expected for the year of trading delivering services through its contract with Scottish Borders Supports LLP.

## Members' Annual Report *(continued)*

### Business Review – SB Cares

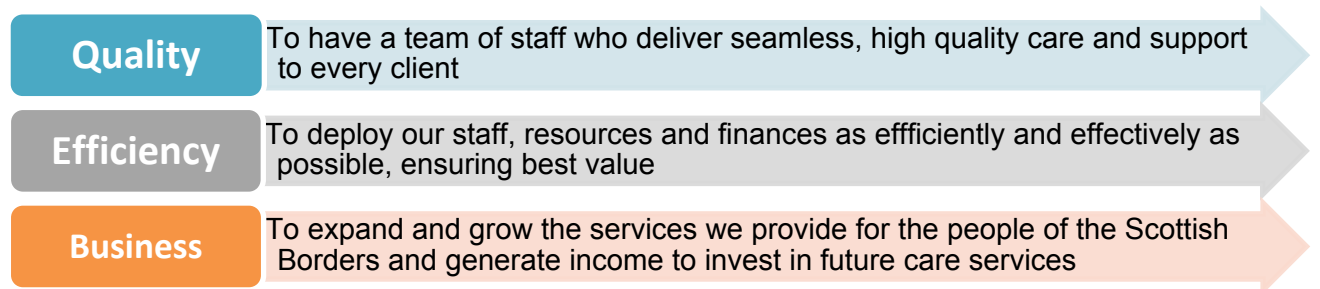
As stated previously Scottish Borders Supports LLP is one of the two entities which combine to trade as SB Cares. As the Board of Management sets the strategic objectives and oversees the performance and management of the two LLPs as a combined whole, the Business Review is being presented as a joint review of both Scottish Borders Cares LLP and Scottish Borders Supports LLP.

### Strategic Context

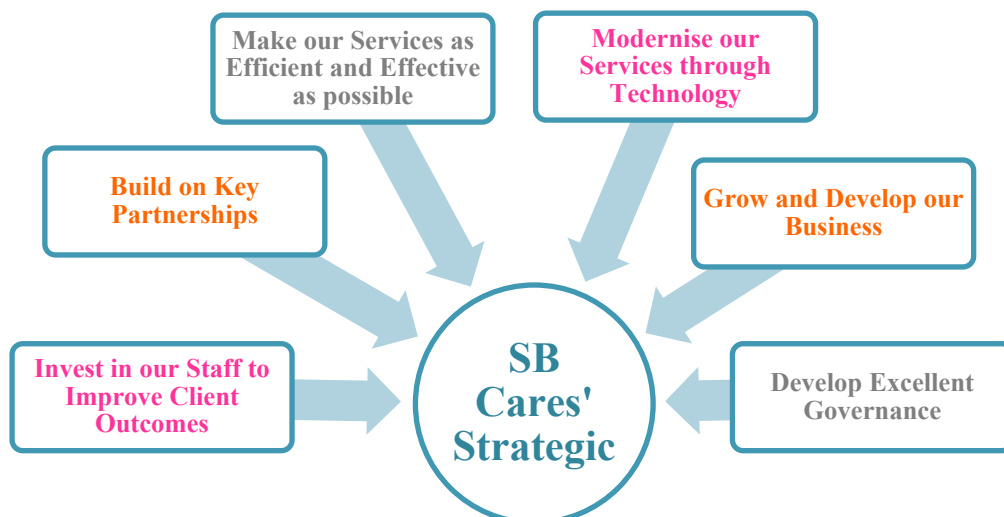
**SB Cares' Vision** is to:



SB Cares will focus on our three **Strategic Aims** in order to support the delivery of this Vision and these are:



These Strategic Aims underpin all of our priorities and actions, with Quality being the key aim of all that we do. The Board of Management has agreed six priorities on which the Board and the Senior Management Team have developed action plans for delivering, developing and improving the services to our clients. **Our Priorities** are as follows:





## Members' Annual Report *(continued)*

### 2017/18 – Summary of Our Activities

2017/18 has been a very busy and successful year for SB Cares and this report, at the end of our third year of trading, provides an overview of the activities throughout the year.

#### *Key Facts and Figures for 2017/18*

SB Cares supported over 12,000 clients, families and carers through the provision of its adult social cares services throughout the Scottish Borders by:

- Delivering over **15,000 visits per week** to enable more than **900 people** to remain in their own homes.
- Delivering **11,840 pieces** of additional ability equipment to support 2,336 new clients to live more independently, with a total of **9,818 clients** using equipment on loan from the Community Equipment Service at the end of the financial year.
- Supporting **1,545** clients and another **291 individual homes** in supported housing schemes to maintain independence with 24 hour monitored personal alarms
- Providing 24 hour support through **143 beds** in a care home environment for those people with higher level needs
- Supporting clients through our day services enabling people to remain at home and providing respite to families and carers

#### *Delivering Our Strategic Priorities during 2017/18*

✓ **Invest in our Staff to Improve Client Outcomes**

*SB Cares has:*

- a. Improved its Support Worker induction programme in order to continue to improve quality of care to clients;
- b. updated its approach to recruitment through the introduction of rolling annual recruitment for Support Workers;
- c. implemented revised organisational structures for the management of both Care and Financial & Commercial Services, with additional focus on quality;
- d. reviewed Homecare operations and is in the process of implementing new positions to support improving quality of care, and effectiveness of scheduling visits; and
- e. agreed a revised Communication, Engagement and Marketing Strategy.

## Members' Annual Report *(continued)*

### ✓ **Build on Key Partnerships**

*SB Cares has:*

- a. established a new Discharge to Assess Care Home at Craw Wood, Tweedbank to provide a short term supported transition from acute medical care in hospital prior to returning home, and this has been done under the Integrated Joint Board for Health and Social Care in partnership with NHS Borders; and
- b. worked with Borders College to develop new social care courses, which SB Cares staff are able to participate in as part of their development.

### ✓ **Make our Services as Efficient and Effective as possible**

*SB Cares has:*

- a. implemented a staffing model across the Scottish Borders for local home care teams which provides a consistent, more responsive and flexible 7 day service;
- b. implemented the first phase of a dedicated 4x4 vehicle fleet for the home care teams which supports improved continuity of care provision to clients during adverse winter weather, and opens up employment opportunities to individuals with limited personal vehicle access;
- c. established the first single care registration for a co-located older people and learning disabilities day service in Peebles which has resulted in improved outcomes and experiences for clients in both services; and
- d. Changed the approach to the provision of meals within our Care Homes reducing costs without impacting on quality or flexibility of service.

### ✓ **Modernise our Services through Technology**

*SB Cares has:*

- a. transitioned the alarm monitoring and out of hours' telephony services of Border Care to East Lothian Council's centre of excellence in order to secure the benefits new technology for call handling, which will enable us to provide a cost effective services and deliver increased service's resilience and improved overall caller experience; and
- b. transferred its Community Equipment Service into a purpose built facility with modern cleaning facilities and delivery vehicles with bespoke fittings to separate issued and returned equipment, all of which contribute to improvements in infection control.

### ✓ **Grow and Develop our Business**

*SB Cares has:*

- a. sustained better than expected client retention following the significant price increase for Bordercare Alarm services agreed by the Council as part of its charging reviews, resulting in approximately £150k increased turnover.

### ✓ **Develop Excellent Governance**

*SB Cares has:*

- a. continued to improve the quality care with 85% of their registered care services receiving Care Inspectorate grades of Good or above.
- b. engaged effectively with the Council's Major Contracts Governance Group, Audit and Scrutiny Committee and Corporate Management Team and delivered significant elements of the Health and Social Care Partnership's strategic agenda.

## Members' Annual Report *(continued)*

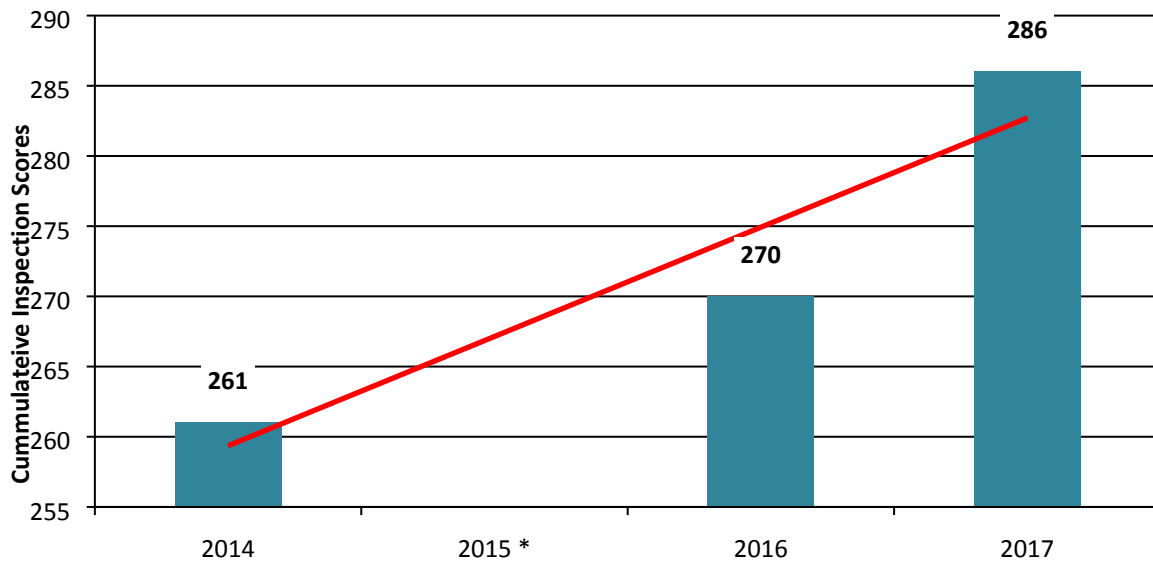
### Quality of Our Care

day services home care care homes independent living



Our registered care services continue to be regulated by the Care Inspectorate and are inspected regularly through their programme. During 2017/18, SB Cares continued to see an overall improvement in the quality of the scores achieved in many of our registered services and the chart below shows the cumulative scores demonstrates these improvements.

### SB Cares' Care Inspection Score



\* 2015 SB Cares first registered services no inspections took place

In addition, the proportion of our registered services achieving very good and above has risen from 15% in 2015/16 to 39% in 2017/18.

## Members' Annual Report *(continued)*

### Risk Management

#### ***Corporate Risk Management***

SB Cares recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

SB Cares has adopted the Council's corporate risk policy to embed risk management into its business practices. SB Cares has continued to monitor, manage and mitigate risk through the proactive management of its risk register and associated actions.

The register is reviewed by reflect risks and mitigations associated with the delivery of its current 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.

The Council's Audit & Risk function, as part of the Service Level Agreement, carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management. The Council's Head of Audit and Risk and Risk Manager attend the Board of Management meetings on a quarterly basis.

#### ***Public Sector Financial Pressures***

The overall pressure on public finances continues to be the dominant risk to SB Cares. Budget pressures and service reduction within the Council has an effect on SB Cares as it provides key services to this main client. SB Cares continues to monitor the change in business operation and address the mitigation of risk proactively. This is accomplished through working closely with its key partners and our clients as well as reviewing our business model to secure continuous improvement.

#### ***Financial Management***

Cash flow management procedures are in place to ensure that resources are managed effectively.

The Board of Management receive a monthly update on the financial position for SB Cares and this includes narrative commentary on movements and updating of the forecast out-turn for the organisation.

## Members' Annual Report *(continued)*

### Combined Financial Position –SB Cares – 2017/18

SB Cares as a trading entity reports to the Board of Management on a monthly basis, presenting the financial position on a management accounting basis (i.e. excluding the impact of the accounting for retirement benefits). This allows informed monitoring and evaluation of the trading financial position. The table below shows the combined position for the 2 LLPs, showing the Comprehensive Income and Expenditure reported position per the 2017/18 Annual Accounts and the underlying trading position for 2017/18.

	Year Ending 31 March 2018		
	SB Supports LLP £000	SB Cares LLP £000	Total SB Cares £000
<b>Total Comprehensive Income/(Loss) for the year</b>	<b>44</b>	<b>(735)</b>	<b>(691)</b>
<i>International Accounting Standard Adjustments:</i>			
IAS 119 Retirement Benefits Adjustments	0	723	<b>723</b>
SBC Service Efficiency Contract Rebate	465		<b>465</b>
Movement in Annual Leave Accrual	(1)	6	<b>5</b>
<b>Income/(Loss) for the year on a Management Accounts Basis</b>	<b>508</b>	<b>(6)</b>	<b>502</b>

The budget was fully reviewed and revised in June/July 2017 and the SB Cares Board of Management have received regular monitoring reports on progress during the year. An overall assessment of the combined results of the Scottish Borders Supports and Scottish Borders Cares LLPs has resulted in the generation of an efficiency contribution on the annual contract fee for services of **£465k** on top of previously achieved reductions in the contract.

The table below identifies what SB Cares has been able to contribute through contractual rebates as part of its trading arrangements with the Council:

	2015/16 £000	2016/17 £000	2017/18 £000
Recurring Savings returned to SBC: 2015/16	480	480	480
2017/18			465
<b>Total Recurring Savings</b>	<b>480</b>	<b>480</b>	<b>945</b>
One-Off Savings returned to SBC - 2016/17		600	
<b>Annual Savings</b>	<b>480</b>	<b>1,080</b>	<b>945</b>
<b>% of Contractual Management Fee</b>	<b>3%</b>	<b>7%</b>	<b>6%</b>
<b>Cumulative Savings</b>	<b>480</b>	<b>1,560</b>	<b>2,505</b>

## Members' Annual Report *(continued)*

This year's contribution has been achieved by a variety of efficiency projects undertaken during the year including:

- ✓ roll out of improved Home Care scheduling and rotas;
- ✓ fleet optimisation activity especially in Home Care and the Community Equipment Service;
- ✓ implementing a new meal service within Care Homes; and
- ✓ reviewing the shopping service.

In conclusion the Members Report and Financial Statements for the year ended 31 March 2018, demonstrate that SB Cares continues to improve and drive forward with its service and financial priorities.

The Members' Annual Report was signed on behalf of Members by

**[SIGNATURE REQUIRED]**

**Philip Barr**

**For and on behalf of  
Scottish Borders Council**

*Designated member*

**[date]**

## 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 SB Cares' website. 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		2018	Notes
£000		£000	
14,920	Turnover	14,890	1
(16,000)	Cost of Sales	(17,227)	2, 6
<b>(1,080)</b>	<b>Gross Profit / (Loss)</b>	<b>(2,337)</b>	
0	Administrative Expenses	0	
<b>(1,080)</b>	<b>Profit / (Loss) on Ordinary Activities after Taxation</b>	<b>(2,337)</b>	
<b>(1,080)</b>	<b>Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members</b>	<b>(2,337)</b>	
	<b>Other Comprehensive Income/(Loss):</b>		
(1,596)	Actuarial (Loss)/Gain from Pension Obligations	1,602	6
<b>(2,676)</b>	<b>Total Comprehensive Income/(Loss) for the year</b>	<b>(735)</b>	

SB Cares LLP's turnover and expenses all relate to continuing operations.



## Balance Sheet

at 31 March

2017		2018	Notes
£000		£000	
	<b>Current Assets</b>		
429	Debtors	408	4
4	Cash at Bank and in Hand	6	
<b>433</b>		<b>414</b>	
	<b>Creditors</b>		
(779)	Amounts falling due within 1 year	(772)	5
<b>(346)</b>	<b>Net Current Assets / (Liabilities)</b>	<b>(358)</b>	
<b>(3,624)</b>	Provisions for Liabilities – Pension and Similar Obligations	<b>(4,347)</b>	6
<b>(3,970)</b>	<b>Net Assets / (Liabilities) attributable to Members</b>	<b>(4,705)</b>	
	<b>Represented by:</b>		
	<b>Members' Other Interests:</b>		
0	Members Capital Account	0	
3,624	Pensions Reserve	4,347	
346	Profit and Loss Reserve	358	
<b>3,970</b>		<b>4,705</b>	
<b>3,970</b>	<b>Total Members' Interests</b>	<b>4,705</b>	

## Statement of Changes in Net Assets Attributable to Members

*For the year ended 31 March*

	Members Capital Account £000	Pension Reserve £000	Profit & Loss Reserve £000	Total Members Interests £000
<b>Balance at 1 April 2016</b>	<b>0</b>	<b>(997)</b>	<b>(297)</b>	<b>(1,294)</b>
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members			(1,080)	<b>1,080</b>
Movement in Actuarial (Loss)/Gain from Pension Obligations		(1,596)		<b>(1,596)</b>
Transfer to/From Pension Reserve		(1,031)	1,031	<b>0</b>
<b>Balance at 31 March 2017</b>	<b>0</b>	<b>(3,624)</b>	<b>(346)</b>	<b>(3,970)</b>
<b>Balance at 1 April 2017</b>	<b>0</b>	<b>(3,624)</b>	<b>(346)</b>	<b>(3,970)</b>
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members			(2,337)	<b>(2,337)</b>
Movement in Actuarial (Loss)/Gain from Pension Obligations		1,602		<b>1,602</b>
Transfer to/From Pension Reserve		(2,325)	2,325	<b>0</b>
<b>Balance at 31 March 2018</b>	<b>0</b>	<b>(4,347)</b>	<b>(368)</b>	<b>(4,705)</b>

The Accounting Policies on pages 16 to 18 and the Notes to the Accounts on pages 19 to 26 form part of these Financial Statements.

These financial statements were approved by the Members and authorised for issue on **TBC 2018** and were signed on its behalf by:

**[SIGNATURE REQUIRED]**

**Philip Barr**  
 For and on behalf of  
**Scottish Borders Council**  
*Designated member*

Company registered number: **SO305156**

**[DATE]**

## 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.

### *(i) 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 statement 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.

### *(ii) 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.

### *(iii) 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'.

### *(iv) Members' Capital*

The capital requirements of the LLP are determined from time to time by the Members. No interest is paid on capital.

## **Accounting Policies** *(continued)*

### **(v) Value Added Tax (VAT)**

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.

### **(vi) 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.

### **(vii) 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.

### **(viii) 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.

### **(ix) 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.

### **(x) 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.

### **(xi) 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.

## Accounting policies *(continued)*

### *(xii) 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.

## Notes to Annual Accounts

(forming part of the financial statements)

### 1 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

### 2 Staff Numbers and Costs

The average Full Time Equivalent (FTE) number of persons employed by the LLP during the year, analysed by category, was as follows:

	2016/17	2017/18
Number of Employees - Front Line Services Staff (FTE)*	553	550

*\*2016/17 restated following FTE adjustment for relief/casual staff*

<b>Staff costs for the above persons were:</b>	£000	£000
Wages and salaries	11,828	11,860
Social security costs	777	788
Pension costs	2,790	4,100
<b>Total Staff Costs</b>	<b>15,395</b>	<b>16,748</b>

### 3 Particulars of Members

The number of Members of the Limited Liability Partnership for the year was two. No remuneration was paid to either Member.

### 4 Debtors

	As at 31 March	
	2017 £000	2018 £000
Trade Debtors	2	2
Amounts Owed by Group Undertakings	376	334
Prepayments and Accrued Income	3	4
Value Added Tax	22	25
Other Debtors	26	43
<b>Total Debtors</b>	<b>429</b>	<b>408</b>

## Notes to Annual Accounts *(continued)*

### 5 Creditors: Amounts falling due within One Year

	As at 31 March	
	2017 £000	2018 £000
<b>Other taxation and social security</b>	(344)	(363)
Accruals and deferred income	(432)	(408)
Other creditors	(3)	(1)
<b>Total Creditors: Amounts falling due within One Year</b>	<b>(779)</b>	<b>(772)</b>

### 6 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 2017 and reported a 113% funding level.

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 Scottish Borders Cares LLP, no liability was transferred from the Council to the LLP at the date of incorporation and a guarantee relating to the pension liability is in place from the Council to the LLP.

#### **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. The LLP has the opportunity to participate in the Pension Fund through Employers' meetings and the Pension Board/Committee should a vacancy arise.

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.

## Notes to Annual Accounts *(continued)*

### 6 Employee Benefits *(continued)*

#### **Risk exposure**

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

Investment risk	The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
Interest rate risk	The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
Inflation risk	All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
Longevity risk	In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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 2018.

##### **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, two former employees became entitled to unreduced early retirement benefits. The capitalised cost of the additional benefits on FRS101 compliant assumptions is calculated at £5,000. This figure has been included within service cost in the statement of profit and loss.



## Notes to Annual Accounts *(continued)*

### 6 Employee Benefits *(continued)*

#### 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 1 April 2015 will be accounted and disclosed for within Scottish Borders Council for service prior to the transfer date.

	2017 £000	2018 £000
Present Value of Funded Defined Benefit Obligations	(8,864)	(13,285)
Fair Value of Plan Assets	5,240	8,938
<b>Net Pension Liability</b>	<b>(3,624)</b>	<b>(4,347)</b>

	Year to 31 March	
	2017 £000	2018 £000
<b>Movements in Present Value of Defined Benefit Obligation:</b>		
<b>Opening Defined Benefit Obligation</b>	<b>3,184</b>	<b>8,864</b>
Current Service Cost	2,784	4,052
Past Service Costs	-	5
Interest Cost	132	255
Actuarial Losses/(Gains)	2,169	(343)
Contributions by Members	545	569
Estimated Benefits Paid Net of Transfers in	50	(117)
<b>Closing Defined Benefit Obligation</b>	<b>8,864</b>	<b>13,285</b>

	Year to 31 March	
	2017 £000	2018 £000
<b>Movements in Fair Value of Plan Assets:</b>		
<b>Opening Fair Value of Plan Assets</b>	<b>2,187</b>	<b>5,240</b>
Expected Return on Plan Assets	699	1,435
Contributions by Employer	1,759	1,811
Contributions by Members	545	569
Estimated Benefits Paid plus Unfunded Net Of Transfers In	50	(117)
<b>Closing Fair Value of Plan Assets</b>	<b>5,240</b>	<b>8,938</b>

## Notes to Annual Accounts *(continued)*

### 6 Employee Benefits *(continued)*

	Year to 31 March	
	2017 £000	2018 £000
<b>Recognised in the Profit and Loss Account:</b>		
Service Cost	2,784	4,057
Interest on Defined Benefit Pension Plan Obligation	5	77
Administration Expenses	1	2
<b>Recognised Pensions Service Costs</b>	<b>2,790</b>	<b>4,136</b>
<b>Re-measurements in Other Comprehensive Income:</b>		
Return on Fund Assets in Excess of Interest	573	144
Other Actuarial Gains/(Losses) on Assets	-	1,115
Change in Financial Assumptions	(2,169)	742
Change in Demographic Assumptions	-	341
Experience Gain/(Loss) on Defined Pension Obligation	-	(740)
<b>Re-measurements of Net Assets / (Defined Liability)</b>	<b>(1,596)</b>	<b>1,602</b>

<b>The Fair Value of the Plan Assets and the Return on those Assets were as follows:</b>	2017		2018	
	£000	%	£000	%
Equities	3,648	70	5,196	58
Gilts	83	2	1,359	15
Other Bonds	428	8	-	-
Property	269	5	1,261	14
Cash	16	-	10	-
Multi-Asset Fund	796	15	647	7
Private Credit	-	-	415	5
Infrastructure	-	-	0	1
<b>Total Estimated Fair Value of Plan Assets</b>	<b>5,240</b>	<b>100%</b>	<b>8,938</b>	<b>100%</b>

## Notes to Annual Accounts *(continued)*

### 6 Employee Benefits *(continued)*

The assumptions used in the estimation of Fair Value of Plan Assets and Defined Benefit Obligations are consistent with those used in the most recent Fund valuation, which was carried out as at 31 March 2017. This has been updated since the 2016/17 Financial Statements when these assumptions were based on the 31 March 2014 valuation of the Pension Fund.

In valuing the assets and liabilities of the Pension Fund for the Financial Statements at 31 March 2018, assumptions have been made as indicated below.

#### **Asset Valuation Actuarial Assumptions:**

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2017 %	2018 %
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

#### **Demographic Assumptions:**

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:

	Life Expectancy from age 65 as at 31 March (in years)			
	2017		2018	
	Males	Females	Males	Females
Employee retiring today	22.9	23.8	21.6	24.2
Employee retiring in 20 years	25.2	26.1	23.3	26.0

#### **Financial Assumptions**

The financial assumptions were set with reference to market conditions at 31 March 2018 and include:

	Financial Assumptions (%)	
	2017	2018
Discount Rate	2.80	2.60
Pension Increases	2.70	2.30
Salary Increases	3.70	3.30

The LLP expects to contribute approximately £1.8 million to its defined benefit plan in the next financial period.

## Notes to Annual Accounts *(continued)*

### 6 Employee Benefits *(continued)*

#### **Sensitivity Analysis**

The following sensitivity analysis relating to the adjustment of various assumptions has been undertaken by the actuary.

	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	12,933	13,285	13,647
Projected service cost	3,741	3,848	3,958
<b>Adjustment to long term salary increase</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	13,284	13,285	13,286
Projected service cost	3,850	3,848	3,846
<b>Adjustment to pension increases and deferred re-valuation</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	13,649	13,285	12,931
Projected service cost	3,956	3,848	3,743
<b>Adjustment to life expectancy assumptions</b>	<b>+1 year</b>	<b>None</b>	<b>-1 Year</b>
Present value of total obligation	13,725	13,285	12,860
Projected service cost	3,971	3,848	3,729

### 7 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.

### 8 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.

## Notes to Annual Accounts *(continued)*

### 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 Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

## Independent Auditor's Report to the Members of Scottish Borders Cares LLP

*TO BE INSERTED AFTER AUDIT*

## Reference and Administration Information

<b>Company Name</b>	Scottish Borders Cares LLP
<b>Company Registration Number</b>	SO305156
<b>Registered Office</b>	Council Headquarters Newtown St Boswells MELROSE Scottish Borders TD6 0SA
<b>Statutory Auditor</b>	KPMG LLP Chartered Accountants Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
<b>Bankers</b>	Bank of Scotland Level 6 110 St Vincent Street GLASGOW G2 5ER
<b>Actuary</b>	Barnett Waddingham LLP 163 W George Street GLASGOW G2 2JJ

## Contact Information

For further information on Scottish Borders Cares LLP, please contact

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# Scottish Borders Council

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Borders Council

June 2018

## Who we are

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

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



## About us

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

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

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

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during our interim audit work carried out at Scottish Borders Council (“the council”). This work included

- testing of key controls within financial systems (including using the work of internal audit) to gain assurance over the processes and systems used in preparing the financial statements
- early substantive testing of a sample of income and expenditure transactions
- a review of the council’s progress with the National Fraud Initiative (NFI) exercise.

2. We will use the results of this work, where required, to determine our approach during the 2017/18 financial statements audit.

3. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the council:

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

4. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit from our reviews of NFI investigation work, General Data Protection Regulation (GDPR) preparation and arrangements for monitoring performance and outcomes which we will report on in our Annual Audit Report.

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

## Conclusion

6. Our work, and the work of internal audit, identified several control weaknesses as summarised in [Exhibit 2](#). We will therefore be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2017/18 financial statements.

7. In terms of our wider dimension audit work we concluded that appropriate investigation work has been carried out for the NFI exercise and initial plans are in place for the implementation of GDPR.

## Work summary

8. [Exhibit 1](#) summarises the key systems and controls that were tested in 2017/18.

**Exhibit 1**

## Work summary

Key system	Key controls tested (including testing performed by internal audit)
<b>Payroll</b>	Exception reporting Review of key payroll processes (new starters/ leavers/ payroll amendments) Changes to standing data
<b>General Ledger</b>	Journal authorisation Changes to standing data
<b>Trade Payables</b>	Changes to supplier bank details Authorisation of purchase orders and invoices Budget monitoring of revenue expenditure Approval of grant payments
<b>Trade Receivables</b>	Authorisation of debtors requests and invoices
<b>Cash and Banking</b>	Bank reconciliations
<b>Fixed Assets</b>	Budget monitoring of capital expenditure
<b>Council Tax and Non Domestic Rates</b>	Awards of discounts / reliefs User access
<b>Pensions Administration</b>	Arrangements for using custodian information Monitoring of contributions

Source: Audit Scotland

9. In accordance with ISA 330: the auditor's response to assessed risk, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

10. Where possible we use the work of internal audit to avoid duplication of effort. During 2017/18 internal audit carried out a significant amount of work on the new financial system in place at the council, Business World ERP. We considered this work as part of our audit, including reperformance of parts of the work in accordance with the requirements of *ISA 610: using the work of internal auditors*.

11. The internal audit report included 18 recommendations to address identified weaknesses in the ERP system which covers 4 main areas:- procurement and payments (5 recommendations); accounts receivable (2 recommendations); payroll (1 recommendation); financial ledger (8 recommendations); and two recommendations covering all modules. The main issues included:

- Further training on the operation of the system should be provided to staff and updated processes documentation reflecting changes to the system since go live should be prepared

- processes for maintenance of the audit trail in the system should be reviewed so that there is a clear record of the person making and authorising changes
- reconciliations of feeder systems should be independently reviewed
- journals should have an enforced segregation of duties for preparing and authorising.

12. The report was considered by the Audit and Scrutiny committee on 14 May and Council officers have agreed an action plan to address the recommendations made in the report.

13. In addition to the agreed recommendations, it was also noted in the internal audit report that it has not been possible to fully test system user access due to limitations in system reports and insufficient documentation regarding user roles and access. A role review is underway to ensure that appropriate access is in place for users.

14. There are also elements of Business World that are not yet operational, such as fixed asset registers and self-service budgetary information. In these areas previous systems and processes from before the introduction of Business World are being used.

15. We also considered the internal audit report on Council Tax (Revenues) as part of our testing. This report was produced in November 2017 and concluded that substantial assurance could be provided regarding the processes in place.

16. GDPR came into force on 25 May 2018. The regulations include significant changes to data protection requirements, including new rights for individuals and increased penalties for breaches. Internal audit commented on the council's preparations for the implementation of these new requirements as part of their report 'Information Governance & GDPR Interim Review' which was issued in March 2018. The report highlighted that the council had largely satisfactory arrangements in place for preparing for the new regulations, with a GDPR Project Board set up that was meeting monthly and overseeing preparations for the new requirements. The report did note that work on completing information asset registers (IARs) was a key element of the GDPR preparation and that many IARs still needed to be completed. We will provide an update on the arrangements in our Annual Audit Report in September.

## Risks identified

17. The key control and wider dimension risks identified during our interim audit are summarised in [Exhibit 2](#). These findings will inform our approach to the financial statements audit where relevant.

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

19. Audit Scotland's methodology is to provide recommendations for areas of risk found during our audit work. We consider that it is the responsibility of management to assess the extent of these risks and to take action where necessary to mitigate these risks. Therefore, our audit approach does not attach any 'risk rating' to the issues included in the action plan below, as we consider all issues we have raised to be of significance to the council.

**Exhibit 2****Key findings and action plan 2017/18**

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<p><b>Business World</b></p> <p>Results of testing from our audit work, and the work carried out by internal audit, has identified that there are significant weaknesses in the control environment following the implementation of the new financial system. In addition, there is planned functionality within the system that is not yet in place.</p> <p><b>There is a risk that errors or fraud may not be identified timeously due to weaknesses in controls.</b></p>	<p>The control weaknesses identified are being addressed through an agreed action plan. Work is ongoing with CGI to ensure these are rectified.</p> <p>The plan agreed with CGI at Go Live should ensure that outstanding functionality relating to fixed assets and self-service reporting are encompassed in the CGI Contract.</p>	<p>Chief Financial Officer</p> <p>31/9/2018</p>
<p><b>Access to Revenue Systems</b></p> <p>We reviewed the list of users with access to the Council Tax and Non Domestic Rates revenues system for appropriateness. We identified eight users with inappropriate access to the system due to changes in their role or no longer working for the council.</p> <p><b>There is a risk that individuals could have inappropriate access to revenues systems.</b></p>	<p>This has been reviewed and addressed. A revised process to ensure system access is updated when user roles changes or people leave has been developed; however, it should be noted there is no evidence that inappropriate access has occurred with regards to corporate systems.</p> <p>A further communication to ensure managers update records will be issued.</p>	<p>Service Director Customer Services</p> <p>30/06/18</p>
<p><b>Payroll Audit Reports</b></p> <p>In previous years, payroll staff used a daily 'audit report' of changes made to the system the previous day to check that all changes were supported by appropriate documentation. The new system does not allow an equivalent report to be produced. There is therefore no system generated report of changes available to allow payroll staff to check changes made to the payroll.</p> <p><b>There is a risk that unauthorised changes to payroll data may not be identified timeously.</b></p>	<p>This is a known outstanding deliverable with the ERP system the requirements for which are scoped and which is fully captured within the post go live rectification plan.</p> <p>Again it should be noted that there is no evidence that any unauthorised changes to the ERP payroll have been made.</p>	<p>Service Director HR</p> <p>30/6/18</p>

Source: Audit Scotland

# Scottish Borders Council

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## **NATIONAL REPORTS BY AUDIT SCOTLAND**

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### **Report by Chief Officer Audit & Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**26 June 2018**

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### **1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of the report is to provide a list to Members of the Audit and Scrutiny Committee of the recently published National Performance Reports by Audit Scotland of relevance to Local Government and a proposal for their scheduled presentation to the Committee for consideration.**
- 1.2 The Audit and Scrutiny Committee's purpose is to have high level oversight of the framework of internal control, risk management and governance within the Council, therefore it is considered good practice for the Committee to consider relevant reports from external inspection bodies.
- 1.3 Audit Scotland publishes on its website National Performance Reports which are designed to share best practice and lessons learned.
- 1.4 Standard practice is that the Chief Officer Audit & Risk, in consultation with relevant Senior Management and the Chair of the Committee, includes those National Performance Reports of relevance to Local Government within agenda of the Audit and Scrutiny Committee for consideration.

### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Scrutiny Committee:-**
  - (a) **Notes the list of recently published National Performance Reports by Audit Scotland, designed to share best practice and lessons learned, and agrees the proposed schedule of their presentation to the Committee; and**
  - (b) **Considers the reports on "Local Government Challenges and Performance 2018" and "Councils' use of arm's-length organisations".**

### 3 BACKGROUND

- 3.1 The Audit and Scrutiny Committee's purpose is to have high level oversight of the framework of internal control, risk management and governance within the Council, therefore it is considered good practice for the Committee to consider relevant reports from external inspection bodies.
- 3.2 Audit Scotland publishes on its website National Performance Reports which are designed to share best practice and lessons learned.
- 3.3 Standard practice is that the Chief Officer Audit & Risk, in consultation with relevant Senior Management and the Chair of the Committee, includes those National Performance Reports of relevance to Local Government within the agendas of the Committee for consideration.
- 3.4 The list below is of recently published National Performance Reports by Audit Scotland that are of relevance to Local Government and a proposal for their scheduled inclusion, where appropriate, in Agenda papers for presentation to the Audit and Scrutiny Committee (in brackets):
  - "2016/17 audit of Dundee City Council: Report of a significant fraud" March 2018 (proposed for Agenda 25 September 2018; response by Chief Financial Officer)
  - "2016/17 audit of The City of Edinburgh Council: Report on Edinburgh Schools" April 2018 (proposed for Agenda 25 September 2018; response by Service Director Assets & Infrastructure)
  - "Local Government in Scotland: Challenges and Performance 2018" April 2018 (included in Agenda 26 June 2018)
  - "Councils' use of arm's-length organisations" May 2018 (included in Agenda 26 June 2018)
  - Best Value Assurance Report: East Ayrshire Council" May 2018
  - Best Value Assurance Report: Fife Council" May 2018

### 4 IMPLICATIONS

#### 4.1 Financial

The National Performance Reports by Audit Scotland set out, where relevant, the financial implications for the organisations pertaining to the report subject matter.

#### 4.2 Risk and Mitigations

The National Performance Reports by Audit Scotland set out, where relevant, the risk implications and risk mitigations for the organisations pertaining to the report subject matter.

#### 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

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

#### 4.6 Rural Proofing

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

4.7 **Changes to Scheme of Administration or Scheme of Delegation**

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

**5 CONSULTATION**

- 5.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and the Corporate Risk Officer have been consulted on this report and any comments received have been incorporated into the report.

**Approved by**

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

**Signature .....**

**Author(s)**

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

**Background Papers:** Audit Scotland website for published reports

**Previous Minute Reference:**

**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.

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Local government in Scotland

# Challenges and performance 2018



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
April 2018


# The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

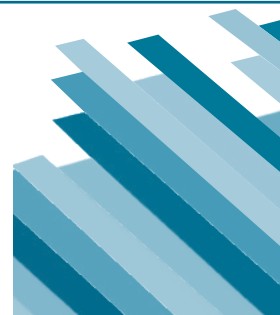
Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 

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

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## Links

-  PDF download
-  Web link

## Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

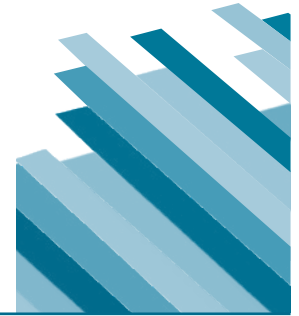



These question mark icons appear throughout this report and represent questions for councillors.

### Audit team

The core audit team consisted of: Carol Calder, Sally Thompson, Claire Richards, Ashleigh Madjitey and Ruth Azzam, with support from other colleagues and under the direction of Ronnie Nicol.

# Chair's introduction



This year's local government overview report, *Local government in Scotland: Challenges and performance 2018*, complements the Commission's [Local government in Scotland: Financial overview 2016/17](#)  published in November 2017. This overview focuses on the wider challenges and issues facing councils as well as their performance and the impact of reduced financial resources.

Councils continue to face challenges on a number of fronts, not least the challenge of continuing to deliver a wide range of services to local communities with reducing budgets. Councils have done much to reduce spend and at the same time continue to deliver services for their local communities. Transformational change is increasingly important to councils as they seek to improve local outcomes with less money. Implementing successful transformation is not easy and audit work shows progress across the 32 councils is mixed. The scale of the challenge means the pace of change needs to improve in some councils. Successful transformation requires robust planning, clear and coherent leadership and suitably skilled staff. Some councils may need to invest in the short term to save in the long term.

Another challenge is the changing landscape in which councils operate. These changes introduce significant uncertainty as well as increasing complexity. For example, the UK's decision to leave the European Union could have a significant impact on Scotland's councils, but the detail of this is not known. Both Scottish Government's review of education and of local governance could have a significant impact on the role councils play, but again the details are not yet evident. Similarly, the creation of economic partnerships could impact on each council's role in the important area of economic regeneration and growth.

The Accounts Commission recognises the difficulties such uncertainty and pressure bring to councils and the added challenge these represent for medium and long-term planning. However, these same uncertainties mean that planning has never been more important. Robust plans that project how council outcomes and priorities will be delivered and funded within reducing budgets are essential to ensure the sustainability of services for the public.

Last year was the first full operational year for Integration Joint Boards. This represented a major shift for local government and it is clear that councils, and their IJB partners, have a significant task in providing social care and support for those in need.

The impact of increasing social care demands from an ageing population on council budgets is clear and means a higher proportion of council money being spent on social care services. This has reduced the amount councils have to spend on other areas and going forward, this has the potential to cause tensions between local and national priorities and risk the viability of some services.

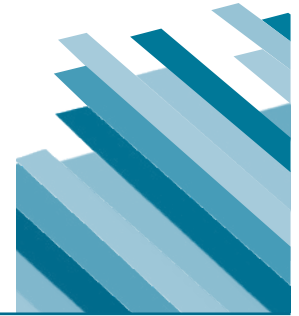


Good work is being done across local government, and there is much councils can learn and share with each other. Looking ahead, councillors and senior management, working closely with their communities, will continue to be faced with difficult decisions on where limited resources should be allocated. It is now more important than ever that these decisions are taken in a planned and coordinated way, and that the impact of decisions on communities and outcomes is transparent and understood.

I hope you find this overview useful, and would welcome any feedback you may have.

**Graham Sharp**  
Chair of the Accounts Commission

# Summary



## Key messages

- 1** Local government in Scotland continues to operate in a complex and changing environment that involves increasing levels of uncertainty. While details of the terms for the UK's withdrawal from the European Union are not yet clear, there will likely be significant and profound implications for our 32 councils. Meanwhile, the Scottish Government remains committed to a significant pace of public sector reform, with some major changes for local government at key stages of implementation. These events are taking place in the overall context of substantial reductions in public spending alongside increasing demand for many local public services.
- 2** Developing new ways of working – or transformational change – is now an essential part of the agenda for councils as they respond to these challenges. Delivering savings is becoming increasingly critical, with forecast funding gaps higher than current levels of reserves for some councils. Where councils have properly scoped, resourced and managed their transformational work, they are more likely to successfully deliver sustainable service change. Cohesive, decisive leadership is required that brings officers, councillors and their communities together to address the major challenges councils face.
- 3** Councils are engaging with the increasingly difficult task of managing the competing priorities of reducing costs and maintaining services for an ageing population. Under current arrangements, some councils can expect to see government funding fall further than others as their total population declines while their older population grows and demand for key services, such as social care, increases. Councils are also implementing significant policy and legislative changes, some of which increase expectations on, or the duties of, councils and many will have additional resource implications. The detail of what these changes will mean is not yet clear in some cases.
- 4** Councils have done a considerable amount to manage the impact of continued budget reductions, and national indicators suggest they have maintained or improved performance in a number of areas. However, there is also evidence that budget cuts are having an impact on services, and customer satisfaction levels have fallen. Some services are not keeping up with demand and there is a risk that quality is being affected. Smaller services, which often include important regulatory functions, have borne the brunt of funding reductions although the impact of this on these services is not always made

clear. In making difficult choices, councils need to continue to work with communities to understand the impact of reduced spending on services and communities and to clearly report this to the public.

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## Recommendations



While councils have done much to reduce spend, deliver services differently and work with their communities, financial and population pressures are likely to continue. Effective leadership and robust planning is more important than ever to ensure council services remain sustainable.

### **Councils should ensure they are continuously improving their work in key areas by:**

- looking to the future:
  - continuing to improve understanding on how the landscape within which their council operates may change, by considering its demographics, the public spending environment and policy changes
  - using this information to inform council priorities
  - developing long-term financial and scenario planning that takes these factors into account and considers the impact on all their services and their users
  - considering how to make the most of new technology, for example streamlining processes and communicating differently with service users
- working with communities - so that they are actively involved in decision-making, know the effect decisions are expected to have on services and communities and see the impact of community empowerment
- focusing on the delivery of priority outcomes through:
  - working with communities to understand their needs
  - establishing effective cross-party relationships to work together and make the sometimes difficult decisions needed to achieve the council's priorities
  - clearly linking budgets to plans and outcomes
- establishing robust change strategies and developing realistic plans for transforming services, which incorporate:
  - effective leadership and good governance arrangements
  - robust options appraisal
  - strong financial management
  - properly scoped and resourced plans

- ensuring change strategies are supported by:
    - realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities
    - effective workforce planning to retain and recruit people with the right skills to deliver sustainable future services
    - income generation plans
    - workforce and member support, training and development
  - evaluating and reporting:
    - the impact that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality
    - using the data collected and monitored to report publicly on the quality of services, as well as user satisfaction with those services.
- 

## About this report

**1.** This report provides a high level, independent view of the challenges facing councils in Scotland, how councils are responding to these challenges and how service performance has been affected. It draws on findings from [Local Government in Scotland: Financial Overview 2016/17](#) , local government audit work in 2017 (including annual audits, Best Value Assurance reports and national performance audits) and published performance data. All national and individual council audit reports are available on our [website](#) .


**2.** The report is not intended to be a comprehensive review of all issues facing councils. It highlights key challenges councils face and looks at some of the main ways councils are responding to increasing demand and reduced funding. Where specific examples of council activities or circumstances are referenced, the implication is not that the named councils are the only ones engaging in these activities or experiencing these circumstances. The report is intended to inform the public and its representatives and, in particular, local government councillors and senior council officers to support them in their complex and demanding roles. It covers three areas:

- [Part 1](#), the current and future challenges facing councils.
- [Part 2](#), how councils are responding to these challenges.
- [Part 3](#), the impact on performance in key service areas and public satisfaction.

**3.** The 2017 local government elections resulted in many new councillors and changes to the political make-up of councils. To help councillors, we have produced the following supplements to accompany this report.

- A scrutiny tool for councillors – this has example questions that councillors could ask to help them understand their council's position, scrutinise performance and assist in making difficult decisions. Councillors should feel

they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their role within the council.

- [An interactive online tool](#)  which contains performance information for individual councils. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others.

**4.** Where possible we have used financial information from Scottish Local Government Statistics as these provide a breakdown of spending by service. Where this has not been possible we have used figures from councils' annual accounts. We refer to real-term changes in the report, meaning that financial figures are adjusted for inflation. Our analysis of local government funding adjusts figures into 2018/19 prices to reflect the current year. Where the report focuses on council performance in 2016/17, figures have been adjusted to 2016/17 prices.

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# Part 1

## The challenges for councils

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### Key messages

- 1** Councils are operating in a complex, changing and increasingly uncertain environment. The sector faces potentially significant change from the UK's decision to leave the European Union. The review of local governance announced by the Scottish Government and COSLA aims to give people more say in local decision-making, and may have a significant impact on councils.
- 2** Council revenue funding from the Scottish Government has fallen in real terms by 9.6 per cent between 2010/11 and 2018/19. This has presented councils with a major challenge in delivering services and making savings. However, some national policies, and ongoing spending commitments such as pension and debt costs, mean there are limitations on where councils can make savings. Smaller service areas, which often include important regulatory functions, have seen the biggest budget reductions, while education and social care services take up a growing proportion of council spend.
- 3** Scotland's population is getting older, leading to increased demand for social care services and fewer working age people to fund public services. Population change brings different challenges to different councils and also has financial implications. Under current arrangements, some councils can expect to see Scottish Government funding fall further than others as their total population declines, while their older population grows and demand for services increases.
- 4** New legislation involves councils developing fresh approaches to community empowerment. There are some examples of good work taking place, including new ways in which councils consult with, listen to and work with local people and communities. However, they are still at the early stages of realising the ambitions of the Community Empowerment Act and there are signs that these approaches do not reach everyone. In 2016, only 23 per cent of adults agreed that they can influence decisions affecting their local area.<sup>1</sup>

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### Councils are operating in an increasingly complex and uncertain landscape

- 5.** Councils provide a wide range of important services for local residents and communities. Increasingly councils are working in partnership with other public, private and third sector organisations as they work to find the best way to deliver services in the future.



6. In recent years, the role of Scotland's councils and the services they provide have been subject to significant legislative and national policy changes from UK and Scottish governments. Some changes increase expectations on or duties of councils. Some change councils' role. Some have significant financial implications, while the implications of others are not clear. All of this means additional work for councils to understand these changes and manage and implement them accordingly [Exhibit 1](#)

**Have you considered how policy and legislative change will affect how your council operates?**

## Exhibit 1

### Implications for councils of key UK and Scottish legislative and policy changes

Legislative and policy changes often lack clarity or detail but can require substantial change.



Increased expectation



Change the role of council



Lack of clarity



Financial implications

Implication	Changes			
<p><b>Withdrawal from the European Union</b></p> <p>Impact of UK's decision to leave the European Union (EU) is unknown but could be significant for councils in terms of funding (Scotland has been allocated € 940 million in funding from the EU for 2014 to 2020) and workforce (19,000 EU nationals are employed in education, health and public administration).<sup>1,2</sup></p>			✓	✓
<p><b>City region deals and growth deals</b></p> <p>In its 2017/18 programme, the Scottish Government committed over £1 billion over the next ten to 20 years to five city region deals (Aberdeen, Edinburgh and the South East, Inverness, Glasgow, Stirling and Tay Cities).<sup>3</sup> The UK Government and councils are also contributing significantly to the deals.</p> <p>City deals will require strong partnership working between councils and a wide range of public and private partners. Councils will need to determine roles and responsibilities, accountability and performance reporting. We will report on city deals in 2019/20.</p>	✓	✓	✓	✓
<p><b>Integration of health and social care</b></p> <p>All integration joint boards (IJBs) were operational in 2016/17. IJBs are responsible for commissioning health and social care services, so councils are no longer wholly responsible for social care services. Arrangements for financial planning, budget monitoring, risk and performance management vary and continue to evolve. We will audit the effectiveness of health and social care integration in 2018.</p>	✓	✓	✓	
<p><b>Education reform</b></p> <p>The Scottish Government aims to create a school and teacher led education system, where decisions and funding will be at school level and Regional Improvement Collaboratives (RICs) will provide support to schools.</p> <p>Under proposals, councils would retain their duty to improve the quality of school education but would do this through the RICs rather than directly. It is not clear yet how this would affect councils' roles in education or their ability to scrutinise performance. The financial implications of these proposals for councils are also unclear. The Scottish Government has also consulted on the funding model for school education.</p>		✓	✓	✓

## Exhibit 1 (continued)



Increased expectation



Change the role of council



Lack of clarity



Financial implications

Implication	Changes			
<p><b>Barclay review of non domestic rates (NDR)</b></p> <p>In 2017/18, NDR made up 28 per cent of revenue funding from Scottish Government to councils. In August 2017, the Barclay review published 30 recommendations on NDR to better support business growth and long-term investment, and to better reflect changing marketplaces.</p> <p>The Scottish Government accepted most of the recommendations. There are expectations that implementing these could cost an additional £80 million a year. It is not yet clear who is responsible for these costs.<sup>4</sup></p>				
<p><b>Enterprise and skills review</b></p> <p>The Scottish Government's review of the enterprise and skills system in 2016 recommended the creation of regional economic partnerships be led by councils.</p> <p>The implementation of this is still at an early stage but changes will impact on councils' work to support local businesses and business gateways.</p>				
<p><b>Early Learning and Childcare</b></p> <p>The Scottish Government is committed to extending free childcare for all three-and four-year-old children and some two-year-olds from 600 hours to 1,140 hours by 2020. Councils had to produce plans for the expansion by September 2017 without knowing the full details about funding or how the scheme will work.</p> <p>Our report <a href="#">Early learning and childcare</a>  found that there are significant risks that councils will not be able to deliver the additional hours by 2020.<sup>5</sup></p>				
<p><b>Community Empowerment Act</b></p> <p>See <a href="#">paragraphs 8 to 13</a> below</p>				
<p><b>Named Person provision</b></p> <p>Under current Scottish Government plans every child in Scotland would have a named person responsible for helping them get the support they need. In many cases, these will be teachers. However, there are delays to the scrutiny of the Bill introducing the named person provision after the Supreme Court ruling against the scheme in July 2016.</p>				
<p><b>Local Governance review</b></p> <p>The Scottish Government aims to strengthen local decision-making and democratic governance in ways that improve outcomes for local communities and give greater control to those who live and work in the area. The Scottish Government and COSLA launched a review in December 2017 to consider how decisions are made about Scotland's public services with the aim of devolving more power to communities. The review's findings will contribute to a Local Democracy Bill which will be introduced before the end of the Parliament in 2021.</p>				

Cont.



## Exhibit 1 (continued)



Increased expectation







Change the role of council



Lack of clarity



Financial implications

Implication	Changes			
				
<p><b>Islands Bill</b></p> <p>The Islands (Scotland) Bill was introduced to the Scottish Parliament in June 2017. It contains a number of measures to ensure a sustained focus on the needs of Scotland's island communities.</p> <p>Once in place, the Islands Bill will require public bodies to prepare an Island Impact Assessment when introducing new or revised policy, strategies or services that may impact island communities differently to other communities. This will require councils to identify the direct and indirect consequences and adjust their proposals accordingly. They will also be required to report every year on the impact of island proofing on their functions.</p>	✓	✓		
<p><b>Scottish Crown Estate Bill</b></p> <p>Crown Estate assets include most of the seabed, 590 square kilometres of foreshore, rural land, commercial property and the rights to wild salmon fishing and naturally occurring gold and silver.</p> <p>The Scottish Crown Estate Bill allows public bodies, including councils and community organisations, to manage the Crown Estate in Scotland. The Crown Estate will remain property of the Queen and any revenue will be paid to the Scottish Government.</p> <p>This would be an additional role for councils to manage which is likely to have financial and staffing implications.</p>	✓	✓		✓

### Notes:

1. European funding in Scotland 2014-20, Scottish Parliament Information Centre, November 2016.
2. EU nationals living in Scotland, Scottish Parliament Information Centre, November 2016.
3. A Nation With Ambition: The Governments Programme for Scotland 2017/18.
4. Debate in Scottish Parliament, 12 September 2017.
5. [Early learning and childcare](#) , Audit Scotland, February 2018.

Source: Audit Scotland

### Councils and their partners are developing fresh approaches to empowering local communities and actively involving them in making decisions

**7.** Councils are now required to fulfil the expectations of the Community Empowerment Act (Scotland) 2015. This seeks to ensure communities are actively involved in deciding how public services are planned and provided and seeks to empower community bodies through transferring ownership of land and buildings. It intends to enhance outcomes for communities by improving the process of community planning, involving communities at all stages and ensuring that local service providers work with communities to meet the needs of the people using the services.

**8.** Community empowerment is a complex area and will require new ways of thinking about what constitutes good and effective community empowerment and how to work most effectively with the range and diversity of local communities. Underpinning



**How are you involving local communities and empowering them to design and deliver services that suit local need?**

the Act is the intention to reduce inequalities. The Act could have staffing and funding implications as councils seek to work more closely with disadvantaged harder-to-reach groups or could provide savings where communities take over council services. Public sector partners will benefit from working together and sharing their learning experiences across sectors and organisations where possible.

**9.** All Community Planning Partnerships (CPPs) published a Local Outcome Improvement Plan (LOIP) for the first time in October 2017 setting out their local priorities. It will be important for CPPs to use a robust evidence base to target those groups of people in greatest need and reduce inequalities. Clackmannanshire Council and its partners worked closely with communities in developing the new LOIP. This includes a more focused set of priorities for specific geographic areas and particular groups of people such as children and women and these will provide a clear basis for prioritising resources in the future.<sup>2</sup> It is too early to assess the full impact of LOIPs. The Improvement Service will publish an overview of LOIPs in 2018, summarising the LOIPs and identifying good practice.

**10.** Best Value Assurance reports (BVARs) show that councils are committed to community empowerment and there are some examples of good work taking place. However, they are still at the early stages of realising the ambitions of the Act. Councils will need to continue to develop their approaches to community empowerment and there is some evidence that there is room for improvement. For example, in 2016 only 23 per cent of adults agreed that they could influence decisions affecting their local area; this figure has remained relatively static since 2009.<sup>3</sup>

**11.** Councils continue to use mainly traditional approaches of community engagement to find out local people's views, for example citizen's panels and periodic consultations on specific issues. However, there is also evidence that councils are starting to engage differently with their communities. Orkney Islands Council is providing a closer link with remote communities through its Empowering Communities project. The council funds two pilot 'Island Link Officers' on the islands of Papa Westray and Stronsay and has established a 'community office' on each island. This gives communities more influence on policies, decisions and services that affect them and also enables services to be more efficient and responsive to local issues and needs.

**12.** In addition to the Act, the Scottish Government and COSLA announced that by 2022 communities would decide how at least one per cent of local government budgets (around £100 million) will be spent. Councils are already adopting a range of approaches. For example, East Renfrewshire Council has set aside a £600,000 repair fund for residential roads. Community participants have ranked their top two preferences for which roads should be repaired first. Glasgow's Participatory Budgeting Evaluation Group, PB Consulting and What Works Scotland have produced a range of participatory budgeting guides and an evaluation toolkit to help councils.

### The 2017 local government elections resulted in significant changes for councils

**13.** The 2017 elections resulted in significant changes for councils:

- A large number of councillors elected were new to the role. In some councils, for example City of Edinburgh Council, more than half of councillors were new.
- Three-quarters of councils are now run by different political groupings.




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**Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide in the future? What is your role as a councillor in this?**

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- There is no single majority political party in charge in any council - 16 councils are run by coalitions and 13 are minority administrations. The three island councils have a majority of independent councillors.
- For the first time since 1997, three political parties each have over 20 per cent of the vote.

**14.** These changes can bring additional pressures affecting how a council operates, during the transition period from one administration to another, or as political arrangements are established and bed in. Indeed, the administrations established in both Clackmannanshire and East Dunbartonshire Councils following the elections resigned during 2017. Having no single majority party in a council will often require more complex negotiations in the decision-making process to ensure sufficient support across all councillors. Whatever the result of democratic elections, councillors must continue to work together with senior management to address their corporate responsibilities in running a complex organisation that faces significant challenges in service delivery.

**15.** One of the Accounts Commission's strategic priorities relates to councillors having the right knowledge and skills to scrutinise council performance and decision making. This is particularly important for councils with a large number of new councillors with no experience of the role. Our BVARs show that councils were generally providing significant amounts of training for councillors. However, it is essential that councillors attend the training offered to gain the benefits intended, and there is evidence that attendance at training sessions is poor in a few areas.

**16.** It is important for a healthy democracy that councils represent and reflect the make-up of their communities in terms of gender, ethnicity and other socio-demographic characteristics. Yet, only 30.5 per cent of councillors elected in May 2017 were female and Comhairle nan Eilean Siar had no female councillors.<sup>4</sup> Female representation at council level is below that at the Scottish Parliament (36 per cent) and UK Parliament (32 per cent). National data is not available on ethnicity and other socio-demographic characteristics of councillors. However, councils should explore how representative their elected bodies are and what, if anything, they can do to improve this.

### **Scottish Government funding has fallen in real terms in recent years and it is more difficult to make savings in some areas**

**17.** Scottish Government funding is the largest source of income for councils. Revenue funding, that is funding for day-to-day services, from the Scottish Government increased by 0.2 per cent in real terms from £9,793 million in 2017/18 to £9,814 million in 2018/19. Between 2010/11 and 2018/19, revenue funding has fallen by 9.6 per cent in real terms.<sup>5</sup>

**18.** The reductions in funding from the Scottish Government present councils with a major challenge to continue to make savings and deliver services at current levels. However, there are limitations in where and how councils can make savings. For example, councils must make repayments on their borrowing and meet employee pension costs each year.

**19.** Councils and IJBs also deliver key Scottish Government policies and priorities, such as in education and free personal care for older people. Councils must spend some of the money they receive delivering these priorities. For example, the Scottish Government provided £51 million in 2017/18 to councils, on the basis



**Do you know what training is available to help you fulfil your duties?**


**Does the training meet your needs? If not, do you know who to speak to?**

that it would be spent on helping to maintain teacher-pupil ratios. The amount of money not for specific purposes has fallen at a faster rate than total revenue funding (10.5 per cent compared to 9.6 per cent since 2010/11). This could cause tensions for councils in delivering local and national priorities.

**20.** At the same time councils face increasing spending obligations through UK and Scottish Government policy priorities for which they do not always receive additional funding. In addition to those set out in [Exhibit 1 \(pages 11 to 13\)](#), there are a number of additional cost pressures:

- The end to the public sector pay cap - a one per cent increase to council staff wages would cost around £70 million a year.<sup>6</sup>
- The apprenticeship levy - requires a 0.5 per cent levy on organisations with wage bills above £3 million. This affects all councils and the trade union Unison estimates it could cost an additional £25 million a year.<sup>7</sup>
- Equal pay claims - 27 councils had 27,000 outstanding equal pay claims in September 2016. The cost to councils in settling these is unknown but could be significant.<sup>8</sup>
- Any future increases in national insurance contributions.

#### **Smaller services have borne brunt of service cuts**

**21.** In 2017/18, councils allocated 76 per cent of their budgets to education and social care services. Although it is possible to make efficiencies in these areas, national policies, specific funding and demand for services mean it is more difficult to do so. As we reported in the [Financial overview 2016/17](#) , the pattern has been one of larger reductions to relatively smaller service areas in recent years, although these often include important regulatory functions. Over the last five years, planning and development services have seen a 20 per cent reduction in spending and culture services 11 per cent compared with no change in real terms to social care and education spending.<sup>9</sup>

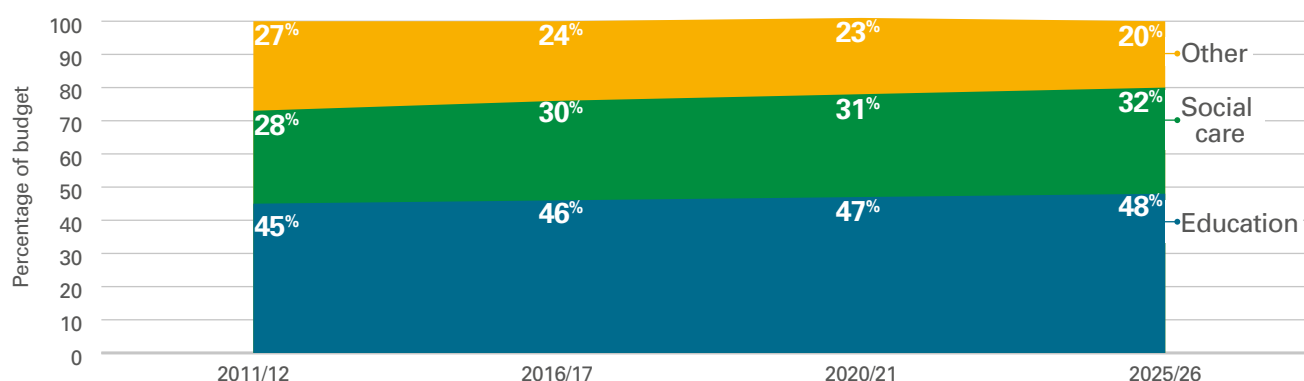
**22.** At an individual council level, North Ayrshire Council reports that it has made savings of 25 per cent to its base budget over the last eight years. This affected different services in different ways. The council has delivered savings of 16 per cent in education, 20 per cent in social care services and 50 per cent in economy and communities over this period.<sup>10</sup>

**23.** If current trends for spending on education and social care services continue, councils will have significantly less to spend on other services in future years. We have forecast councils' future spending patterns. For this, we assumed local government funding increases in cash terms in line with recent years (2012/13 to 2015/16); an increase in social care spend in line with the increased demand due to a higher number of people of a pensionable age in the population; an increase in education spend in line with recent years; and no service redesign or policy changes. This modelling shows that councils would spend 80 per cent of budgets on education and social care by 2025/26. This would leave only 20 per cent of budgets for all other council services such as road repairs, refuse collection and environmental health in 2025/26, seven per cent less than in 2011/12. planning and leisure and culture services [Exhibit 2 \(page 17\)](#).

## Exhibit 2

### Forecast of council spending patterns

Without service redesign or policy changes our modelling suggests that councils could spend 80 per cent of their budgets on education and social care by 2025/26.



Note: Calculations are based on cash terms.

Source: [Scottish Local Government Finance Statistics 2016/17](#)  Audit Scotland, November 2016



## Population change affects demand for services and council funding

**24.** Scotland's population is predicted to grow by three per cent between 2016 and 2026 and five per cent between 2016 and 2041. This growth is entirely from inward migration as deaths will outnumber births in each year. The UK's decision to leave the European Union may have an impact on inward migration which could affect the predictions, particularly for the number of working age people.<sup>11</sup> Scotland's population is ageing. Over the next ten years the number of people aged 75 and over is predicted to increase by 27 per cent and by 79 per cent within the next 25 years [Exhibit 3 \(page 18\)](#).

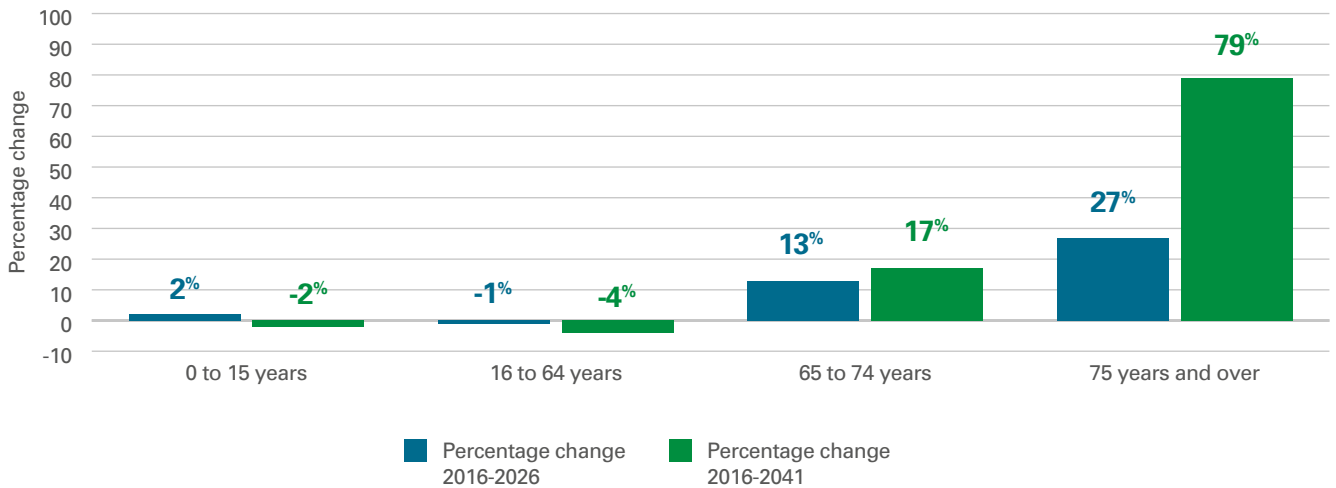
**25.** Predicted population change has significant implications:

- The sharp increase in the rise of older people is expected to lead to increased demand for social care services. The majority of over-65s in Scotland have two or more long-term conditions such as diabetes or heart disease and the majority of over-75s have three or more long-term conditions.<sup>12</sup> The Scottish Affairs Committee at Westminster concluded this will significantly increase demand for social care services.<sup>13</sup>
- There will be fewer working age people compared to people of pensionable age and school children. Working age people generate more money for public spending through taxation, while older people and children generally use more public services such as social care and education. In 2016, there were 574 people of pensionable age and school children for every 1,000 working age people. This is known as the dependency ratio. This is expected to increase to 640 people of pensionable age and children for every 1,000 people of working age by 2041.<sup>14</sup> The Scottish Affairs Committee also concluded that demand for funding for services for an ageing population will grow quicker than generated income due to slower growth of the working age population.

### Exhibit 3

#### Scotland's population projections, 2016-2026 and 2016-2041

Scotland's population is predicted to age significantly.



Source: National Records for Scotland, 2016 population projections



#### Population change brings different challenges for different councils

**26.** Predicted population change is not uniform across councils, meaning different councils face different challenges [Exhibit 4 \(page 19\)](#). Between 2014 and 2039, the population is expected to increase in 21 councils and decrease in 11. Midlothian Council is expected to see the biggest increase (26 per cent) and Comhairle nan Eilean Siar the biggest decrease (14 per cent).

**27.** The one constant trend across all Scottish councils is that the number of people of a pensionable age and over is expected to increase. This varies from a 48 per cent increase in West Lothian Council to an eight per cent increase in Dundee City Council. This will have differing impacts on demand for social care services.

**28.** In seven councils (Renfrewshire, Orkney Islands, Scottish Borders, Highland, Angus, South Lanarkshire, Moray) projected population increase is made up entirely of elderly population growth. For example in the Moray Council, the population is expected to grow by four per cent but the working age population and child population to fall by three per cent and eight per cent respectively. The population of a pensionable age and over will grow by 33 per cent over the same period.

**29.** There is significant variation in the predicted change in the population of children (defined as aged 0-15):

- Twenty councils are expected to see a decrease. These range from a 28 per cent reduction in Comhairle nan Eilean Siar to 0.1 per cent in Scottish Borders Council.
- Twelve councils are expected to see an increase. These range from 25 per cent in Midlothian Council to two per cent in Fife Council ([Exhibit 4](#)).

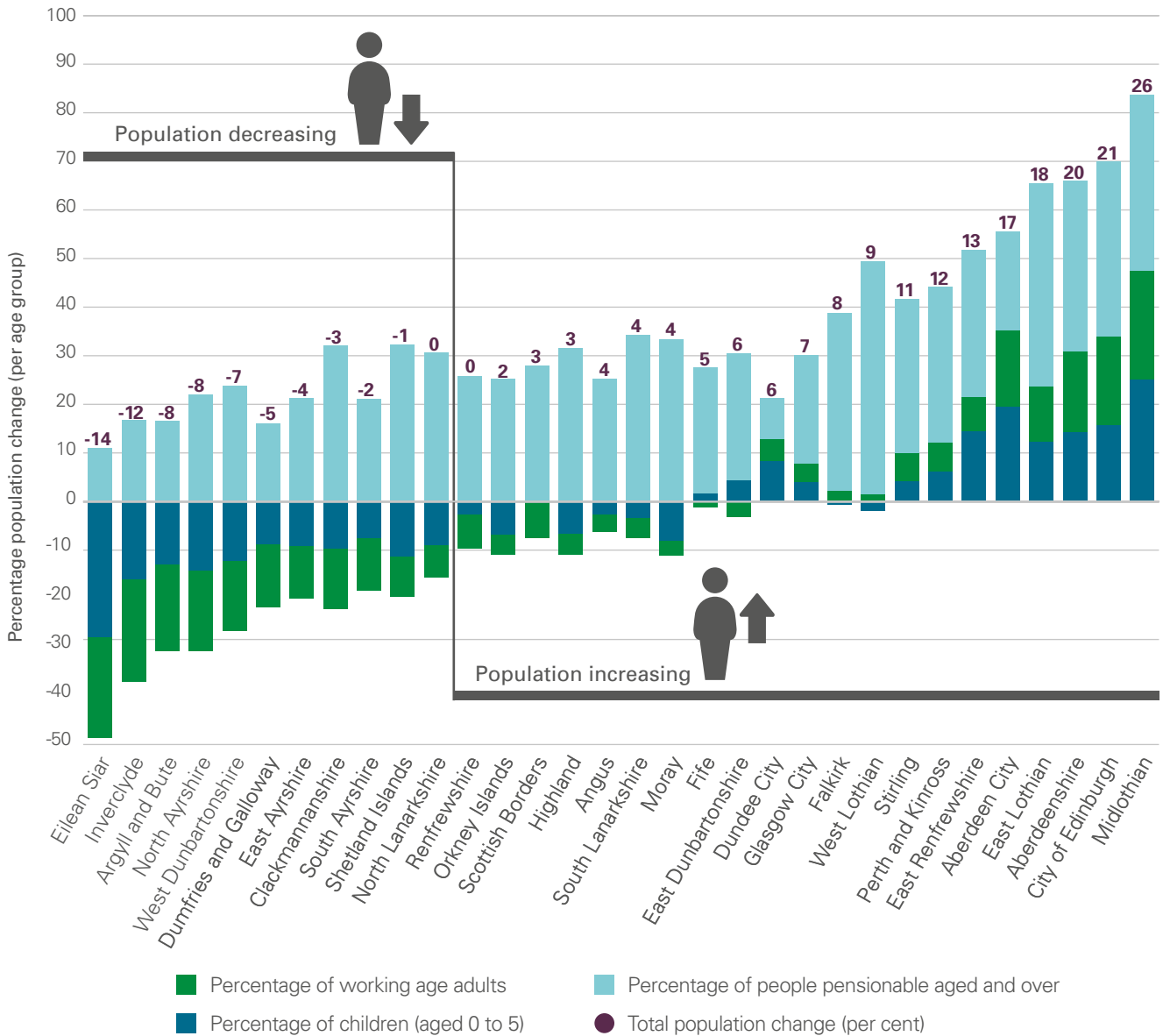


**Have you considered the demographics of your council and how this will impact on service delivery and funding in the future?**

## Exhibit 4

### Councils face different challenges relating to population change, 2014 to 2039

Eleven councils face predicted population decline by 2039.



Source: National Records for Scotland, 2014 population projections; and Audit Scotland



**30.** Changes to the number of children will pose different challenges for councils as they continue to deliver education services. Some may have to build new schools and recruit additional teachers while others will have to manage their school property estate and teacher-pupil ratios as their school population shrinks. This will be particularly challenging for Comhairle nan Eilean Siar and other island and rural councils.

#### Population change also has financial implications for councils

**31.** The implications for councils with a decreasing population include: fewer people to pay council tax, a lack of local workforce which may make the area less attractive to businesses, and low population figures making some local services harder to sustain.

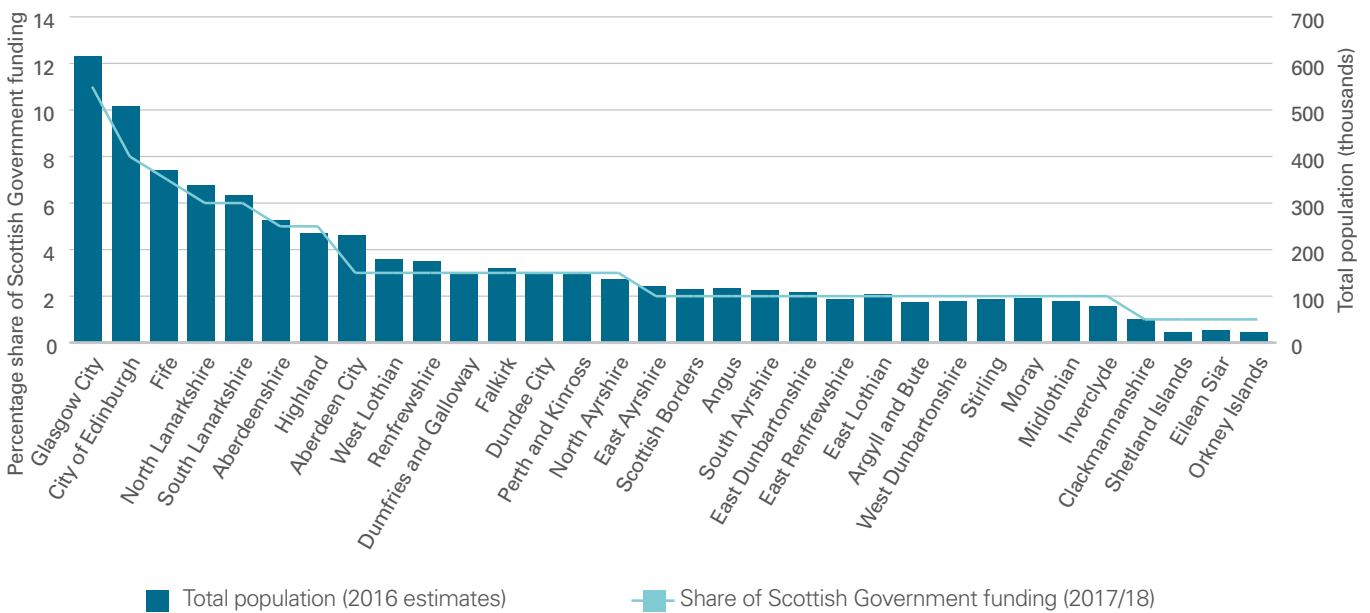


**32.** In our 2017 local government financial overview report, we outlined how the Scottish Government funding formula is largely based on the size of council's populations, although under proposals to review funding for education, this may change ([Exhibit 5](#)). Currently, those councils with a projected decrease in population can expect to see greater reductions to their budgets compared to councils with increasing populations.

### Exhibit 5

#### Total population and share of key element of Scottish Government funding

The amount of funding councils receive from the Scottish Government is closely linked to their population.



Note: Scottish Government funding is Grant Aided Expenditure and Special Island Needs Allowance.  
Sources: Audit Scotland; the Scottish Government - the green books

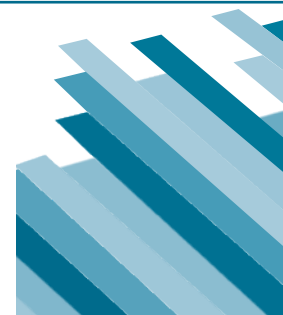


**33.** However, all 11 councils which are expected to have reduced total populations are expected to have increases in the number of people of a pensionable age and over ([Exhibit 4](#)). These councils will therefore have a higher dependency ratio and a consequent increased demand for services at a time of reduced funding. Many of these councils are also rural which poses an additional challenge in delivering services as cost effectively as urban councils. We recommended in our 2016/17 local government financial overview that the Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government.



# Part 2

## Councils' response to the challenges



### Key messages

- 1** Councils are increasingly using their reserves. Some councils have higher forecast funding gaps than their current levels of reserves. For these councils, the delivery of savings is critical. Long-term financial planning is not easy but is vital in helping councils deliver sustainable services.
- 2** Reducing staff numbers has been one of the main ways councils have reduced their spending and, in some councils, this is set to continue. Given the changes in workforce to date and the expected new demands on councils, robust workforce planning is essential to ensure councils have the right people, who have the right training and skills, to deliver their priorities. However, not all councils have organisation-wide workforce plans and the quality of these varies.
- 3** Achieving transformational change is increasingly vital to councils as they respond to reductions in funding. Councils need to ensure they have effectively planned and invested to deliver their transformational programmes and that staff have the necessary skills. Cohesive and decisive leadership is essential to address the significant challenges councils face.

### Councils are increasingly using their reserves and for some delivering savings is now critical

**34.** All councils hold reserves. These are funds that councils can spend if they need to meet an unexpected cost, bridge a gap in funding or if they wish to invest in some initiative or specific activity. A council can only use reserves once, they are not a way to sustain services year on year. As we reported in our financial overview, 19 councils drew on their revenue reserves in 2016/17, an increase from the eight councils that did so in 2015/16. In 2016/17, 13 councils used more reserves than they had planned. Overall council revenue reserves fell by about £32 million in 2016/17.<sup>15</sup>

**35.** Some council financial plans for 2017/18 relied more heavily than others on using reserves to bridge funding gaps. Forecast funding gaps remain higher than current levels of reserves for a number of councils, making the delivery of savings critical. Continuing to use reserves at the current rate is not an option for some councils as they would run out of reserves within two to three years if they continued to use them at the level planned for 2017/18.<sup>16</sup>

**36.** Robust medium-term financial strategies and savings plans are vital for the financial sustainability of councils. For councils with lower levels of reserves, financial plans need to be increasingly detailed and robust. This will mean more work for officers and members in clearly identifying achievable savings.

**37.** Evidence from councils' annual audit reports generally demonstrates good medium-term (three to five years) financial planning, with some councils using scenario planning to provide a range of options. However, more work needs to be done to link budgets to plans and outcomes, establish sustainable long-term (beyond five years) planning arrangements and demonstrate that outcomes and strategic priorities are being delivered.

**38.** The Accounts Commission recognises the challenge to medium-and long-term planning of the Scottish Government providing funding figures for a single year, without indicative figures for future years. However, the absence of indicative funding for future years should not prevent councils projecting future income and spending, and planning accordingly. Indeed, uncertainty increases the need for councils to plan ahead.

### **Councils have adopted a range of approaches to reduce spending and increase income**

**39.** For most councils, achieving savings while continuing to deliver services requires a mixed approach. This includes reducing workforces and services, taking measures to increase income, and digitising services; along with more transformational changes to service delivery or stopping some services altogether. In practice, these different approaches are interdependent. Councils need effective leadership and governance, strong financial management, and a workforce with the right skills to successfully deliver change.

#### **Reducing workforce size has been one of the main ways councils have reduced their spending but workforce planning is poor in some councils**

**40.** Most councils have reduced their workforce in recent years.<sup>17</sup> Overall, staff numbers have fallen every year since 2009. Nationally, the biggest reductions in staff numbers were in the years 2009 to 2012, when the total council workforce fell by 21,000 (nine per cent).<sup>18</sup> Since then, overall staff numbers have continued to decrease at a relatively steady rate. Between 2012 and 2017, councils' total workforce fell by a further five per cent (10,000 staff); including a one per cent (2,500 staff) drop from 2016 to 2017.<sup>19</sup>

**41.** Our analysis by council over the period 2011–2017 suggests that some councils have relied more heavily than others on staff reductions to make savings ([Exhibit 6, page 23](#)). However, because we are unable to track staff moving to arm's-length external organisations (ALEOs), it is difficult to draw clear conclusions about changing workforce numbers nationally. For example, it is likely that the workforce reductions recorded by Highland and Scottish Borders Councils are partially due to large numbers of staff transferring to ALEOs during this period.

**42.** Data for quarter 3 in 2017 was the first since quarter 2 in 2008 to report an increase in staff numbers compared to the previous year.<sup>20</sup> However, it is too early to comment on whether this indicates any upward trend overall, and evidence from the first year of BVARs suggests that the long-term trend of reducing staff numbers to meet funding gaps is set to continue in some councils. For example Inverclyde Council has reduced its staff by just over 500 (13 per cent of workforce) in the last seven years.<sup>21</sup> It estimates that it will need to reduce its staff by a further 80 to 130 staff over the next two years (this is between two to four per cent of its workforce).<sup>22</sup> East Renfrewshire Council needs to reduce its workforce by an average of 100 staff a year over the next three years. This is around three per cent of its workforce in the first year.




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**Does your council have medium and long-term financial plans in place?**

**Does your council link budgets to plans and outcomes and report on these?**

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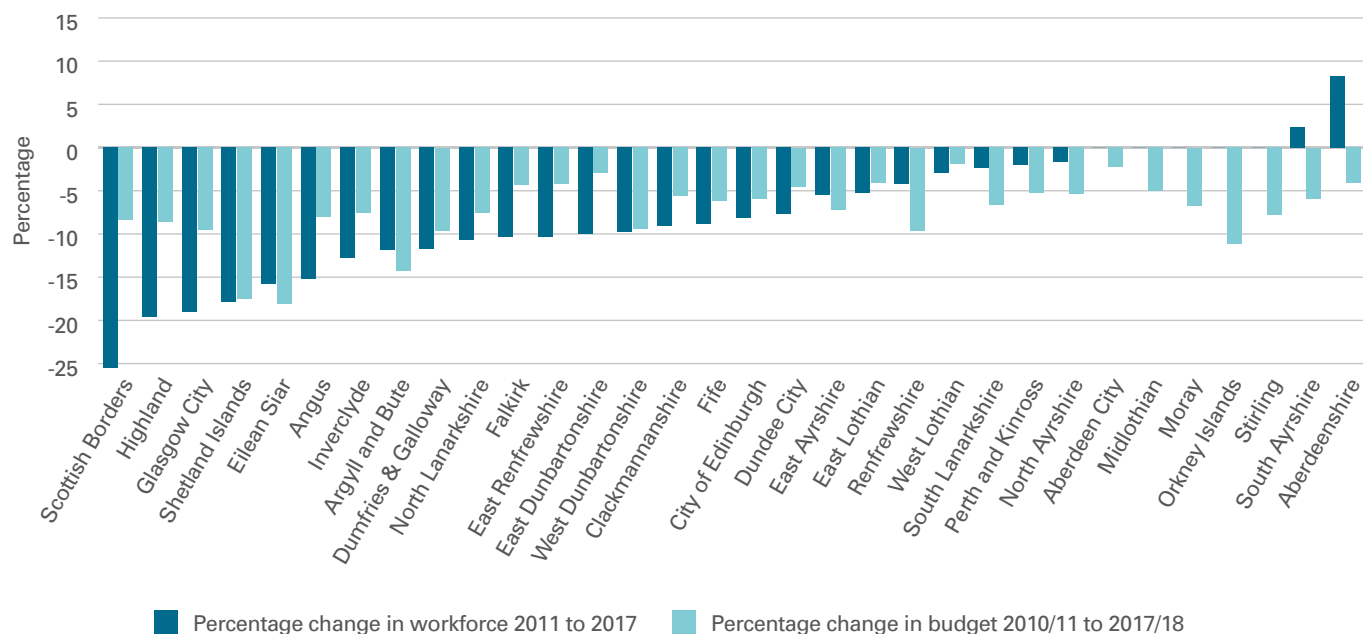
**Does your council have the right structures in place to ensure that all your efficiency, improvement and transformational approaches are working together to maximise savings?**

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## Exhibit 6

### Changes in council budgets and workforce 2011 to 2017

The use of staff reductions to make savings varies across councils.



#### Notes:

1. Budget is defined as general revenue grant and non-domestic rates, in real terms.
2. Workforce change is from Q1 2011 to Q1 2017.

Source: Audit Scotland and Joint Staffing Watch, Scottish Government



**43.** It is critical that councils carefully manage workforce reductions and that each council ensures it has people with the skills required to deliver its priorities now and in the future. Workforce planning is complex and councils face a number of challenges:

- The council workforce is ageing. The Scottish Social Services Council reported that the median age amongst public sector social care employees is 48 years.<sup>23</sup> UNISON also report high proportions of staff over the age of 45 years in building standards, school support and home care workers.<sup>24</sup> Councils will need to consider if and how to replace these experienced workers.
- Many councils struggle to recruit and retain employees. Councils in rural areas report difficulties recruiting staff to some roles due to their remote location. Several councils have reported that education and social care staff are particularly difficult to recruit. Others report difficulties recruiting staff in specialist or professional roles such as engineers and accountants. Our Clackmannanshire Council Annual Audit report highlights that the council has found it difficult to recruit suitably qualified and experienced finance staff. The UK's decision to leave the European Union could create further difficulties in staff recruitment.
- Council workforces must be able to adapt to deliver council priorities and meet future challenges. National early learning and childcare commitments will have significant implications for council staffing. Councils will also need to ensure they have staff with the right skills to maximise the potential of new digital technology.



**Does your council have an organisation-wide workforce plan?**


**Does it contain information about the numbers, costs, and skills of the actual and desired workforce?**

**How is your council looking to maximise income?**

- Strong leadership is essential for councils to effectively manage transformation and develop new ways of delivering services within reduced budgets. Yet there can be difficulties recruiting to the top team as salaries are often lower than the private sector at senior levels.<sup>25, 26</sup> The Improvement Service's report on Talent Management in the Public Sector highlights that public sector bodies need to do much more to develop their approach to managing talent.<sup>27</sup>

**44.** Despite its importance, only half of councils had organisation-wide workforce plans last year.<sup>28</sup> Workforce plans vary in quality. For example, not all provide critical planning information, such as:

- the numbers, cost and skills of the current and the desired workforce
- how the move from the current to the desired workforce will take place and when it will be achieved.

**45.** Some workforce plans are short term in nature and only consider workforce needs for the current year, for example, the [Best Value Assurance Report: Inverclyde Council](#)  reports that longer-term forecasts need to be developed. Councils also need to ensure workforce plans will help to deliver corporate priorities, transformation plans and financial plans.

### Councils have sought to increase income

**46.** There are opportunities for councils to raise income through council tax and fees and charges. However, there are limits on how much can be raised.<sup>29</sup>

**47.** The council tax freeze ended in 2017/18. Twenty-four councils increased council tax, including 21 that raised rates by the maximum three per cent allowed by the Scottish Government. This rise increased council income by around £53 million.<sup>30</sup> Proportionately this represents a small increase to council budgets. It is possible that public satisfaction with services will decline if the service delivered is not perceived to improve in line with higher taxes.

**48.** It is difficult to accurately tell how much income is generated through fees and charges in Scotland. The Scottish Parliament Information Centre (SPICe) Briefing on Local Government Finance used Local Financial Returns (LFRs) to analyse how councils have raised income through fees and charges to people using services. It found that revenue from fees and charges had fallen by 4.5 per cent in real terms between 2011/12 and 2015/16, from £569.7 million to £544.2 million.<sup>31</sup> However, the data provided in the LFRs is self-reported and there can be differences with how councils categorise income and expenditure. For example, some councils may not record income generated by ALEOs in the same way that they record income generated directly by the council.

**49.** While it is not possible from the data currently available to assess nationally how councils use their ability to generate income to offset the impact of reduced Scottish Government funding, there are indications that councils are increasing income through fees and charges. For example, the RAC Foundation reported that total income for Scottish councils from parking fees was £79.3 million in 2015/16, a five per cent increase over the previous year.<sup>32</sup> Citizens Advice Scotland has found that burial charges increased in 25 councils in 2016/17, with an average increase of £64.31 (5.5 per cent).<sup>33</sup>

**50.** Councils must consider the impact that increased fees could have on inequality within their communities, as higher charges are likely to have a disproportionate effect on deprived and vulnerable communities. All seven councils that submitted evidence to the Parliament's scrutiny of the draft budget indicated that they considered inequalities when making decisions about fees and charges.<sup>34</sup>

**51.** Councils are also getting together to share ideas and approaches to maximising income and many are involved in a network on 'commercialisation' led by the Association for Public Sector Excellence (APSE). This work is at an early stage but could lead to councils generating additional income from a range of activities.

### Transformation is increasingly important to councils

**52.** By transformation we mean significant programmes of activity that radically change the services councils provide and how they are delivered. This involves making services more efficient and achieving better outcomes for people who use services and for communities. Good transformation will be based on robust option appraisal. It should reflect the needs of communities, consider alternative service delivery models and seek to reduce long-term demands on services.

**53.** Planning for and delivering transformational savings will become increasingly important to councils if funding continues to fall and decisions about spending priorities become increasingly difficult. Options appraisal is an important tool to help councils make an informed decision on what their transformation priorities should be.

### Transformation needs to be properly scoped and resourced for it to deliver the desired savings

**54.** Some councils use formal and explicit transformation plans to deliver their strategy for change. Other councils integrate transformation into developing how services are delivered without using a specific transformation plan. Both approaches can be effective if the right leadership and management are in place. Cohesive and decisive leadership is essential to address the significant challenges councils face.

**55.** Councils need to ensure that they are investing the right time and resources to deliver the scale of the planned transformation. Real transformation takes time and to be successful councils should:

- set priorities - councils cannot transform everything at once
- conduct robust option appraisals - councils should consider a wide range of options
- have a clear strategy and a realistic savings target which is properly monitored
- have proportionate governance structures
- assess the impact on equality of access and opportunity and whether change may have a disproportionate impact on more vulnerable or poorer communities or individuals.

**56.** Transformation needs:

- effective leadership from councillors and the senior management. In Dumfries and Galloway Council, progress is reported regularly to the Business Transformation board and Business Transformation steering group




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**Does your council compare its policies and priorities to raise income with other councils?**

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**Does your transformation activity contain plans for truly transformational change? Will it improve services and save money?**

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- staff who have the time to work exclusively on transformation. West Lothian Council has 15 full-time equivalent staff (including senior and specialist staff) on secondment working on the scoping stage of their transformation plan.
- staff with the skills to achieve council priorities and make the required changes to services. At Inverclyde Council, 100 employees took part in a senior management leadership development course which emphasised delegating operational decisions to front-line managers. East Renfrewshire Council has recognised that there is limited supply of some skills in the council. In response it has designed and delivered a Scottish Qualifications Authority (SQA) accredited course in project management and a course in change management.

**57.** Councils should ensure that planned savings are realistic and achievable. Councils that are already under significant financial strain need to be especially careful about this. For example, Midlothian and Clackmannanshire Councils have low general fund reserves and high savings targets for their transformation plans, which will be challenging to meet. Not delivering expected savings could mean their general fund reserves fall.

**58.** There is a high level of risk involved in transformation projects. These include expected savings not being delivered (with consequent effects on a council's reserves and financial position); alternative models of service delivery not achieving the expected service standards and outcomes and there being insufficient staff time and skills deployed. Not all transformation activity will have the desired effect. Councils need to be willing to take some risk, within an effective risk management framework, in their approaches to transformation.

**59.** Councils are sharing successful new approaches. The Innovation Exchange website, which is supported by the Society of Local Authority Chief Executives (SoLACE) and the Improvement Service, brings together innovative projects from across all councils. It allows councils to share good practice and improve how services are provided.

### **Councils recognise the potential of digital solutions to deliver savings and make services more efficient**

**60.** Digital solutions are a key element of most councils' transformation activity. When we talk about digital, we are not just talking about technology. We are talking about how digital technologies and solutions are affecting and changing human interactions. Some of the ways that councils are adopting digital solutions include:

- introducing new technology to allow front-line staff to access and process information wherever they are working, for example home carers
- making better use of data by linking and integrating data across departments
- streamlining and automating processes to make them more straightforward for citizens and more efficient for the council, for example completing forms and making payments
- ensuring the security of data and information held by the council
- making information more accessible to residents through websites.




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**Have you invested in the right resources for your transformation activity to achieve its planned savings?**

**Does your council have the necessary governance structures to effectively oversee and monitor its transformation activity?**

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**What is your council's risk appetite for transformational change? Are risks properly monitored?**

**What will the financial implications be for your council if your transformation strategy fails to meet its savings targets?**

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**61.** Councils are incorporating digital solutions in a variety of ways. As councils become more mature users of digital, they are adopting more innovative ways of integrating digital into how they deliver services. Thirty councils have signed up to the Local Government Digital Partnership programme, which aims to strengthen councils' use of digital.<sup>35</sup>

**62.** Many councils are pursuing greater efficiency by integrating digital into how they deliver their services. For example, the Moray Council reports it has made its housing repair service more efficient by introducing mobile working. This has cut travel time to jobs, reduced missed appointments, and allowed seven team members to be reallocated to other areas. North Ayrshire Council increased customer satisfaction from 91 per cent to 98 per cent by improving the digital channels that people can use to access services.

**63.** Some councils are working to make their digital infrastructure more efficient. This involves joining up systems and data that are held by different services and creating systems that are able to share data. Aberdeen City Council has developed a digital transformation programme that prioritises these tasks. One of the anticipated outcomes of this programme is that customers will only have to provide information once to the council, and this information will automatically update data already held by the organisation.

**64.** Our *Principles for a digital future*  report provides guidance on the core principles for successfully planning digital projects.<sup>36</sup> It identifies the following principles for success:

- comprehensive planning setting out what will be achieved and how it will be done
- active governance providing appropriate control and oversight
- putting users at the heart of the project
- clear leadership that sets the tone and culture and provides accountability
- individual projects set in a central framework of strategic oversight and assurance.

**65.** Councils need to balance improving digital access to services with an awareness that not everyone can access or operate digital technologies. Others will be limited in how they can access digital technology; for example, some may only have access to the internet using their mobile phone. Limited access to digital technology is most likely to affect vulnerable and excluded groups. Digital should not become the only way to access council services, but it should be an efficient and easy option of communication for those who choose to use it.



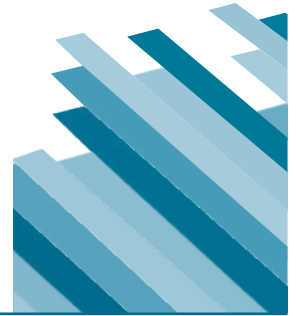

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**Does your council follow the core principals for successfully planning digital projects outlined in our *Principles for a digital future* report?**

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# Part 3

## The impact on council services



### Key messages

- 1** At a national level, indicators suggest that councils have maintained or improved performance in a number of areas despite funding reductions. However, there is considerable variation between councils that is not always easily explained. Our audit work has found that councils articulate their strategic priorities and plans well but often do not report how these connect to actual performance and outcomes.
- 2** However, there is also some evidence that budget reductions are impacting on services. Public satisfaction is falling. There is evidence that social care services for older people are not keeping up with demand, and there is a general risk to the quality of services. The impact of budget reductions on smaller services could be significant but there is limited evidence on this. Councils need to understand and clearly set out the impact budget reductions have had on service delivery and use this to inform future decision making.

---

### Despite funding reductions a number of national indicators of performance continue to improve

**66.** The Accounts Commission has previously stated that given the challenges facing local government, not least the future financial challenges, it does not expect to see performance improving in all measures for all councils. It is up to individual councils and their communities to agree local priorities and make the difficult decisions about which services to focus time, skills and money on. Effective public performance reporting should reflect those decisions and explain performance variance within that context. Councils will need to continue to have conversations with their communities to understand and explain the impact of budget cuts.

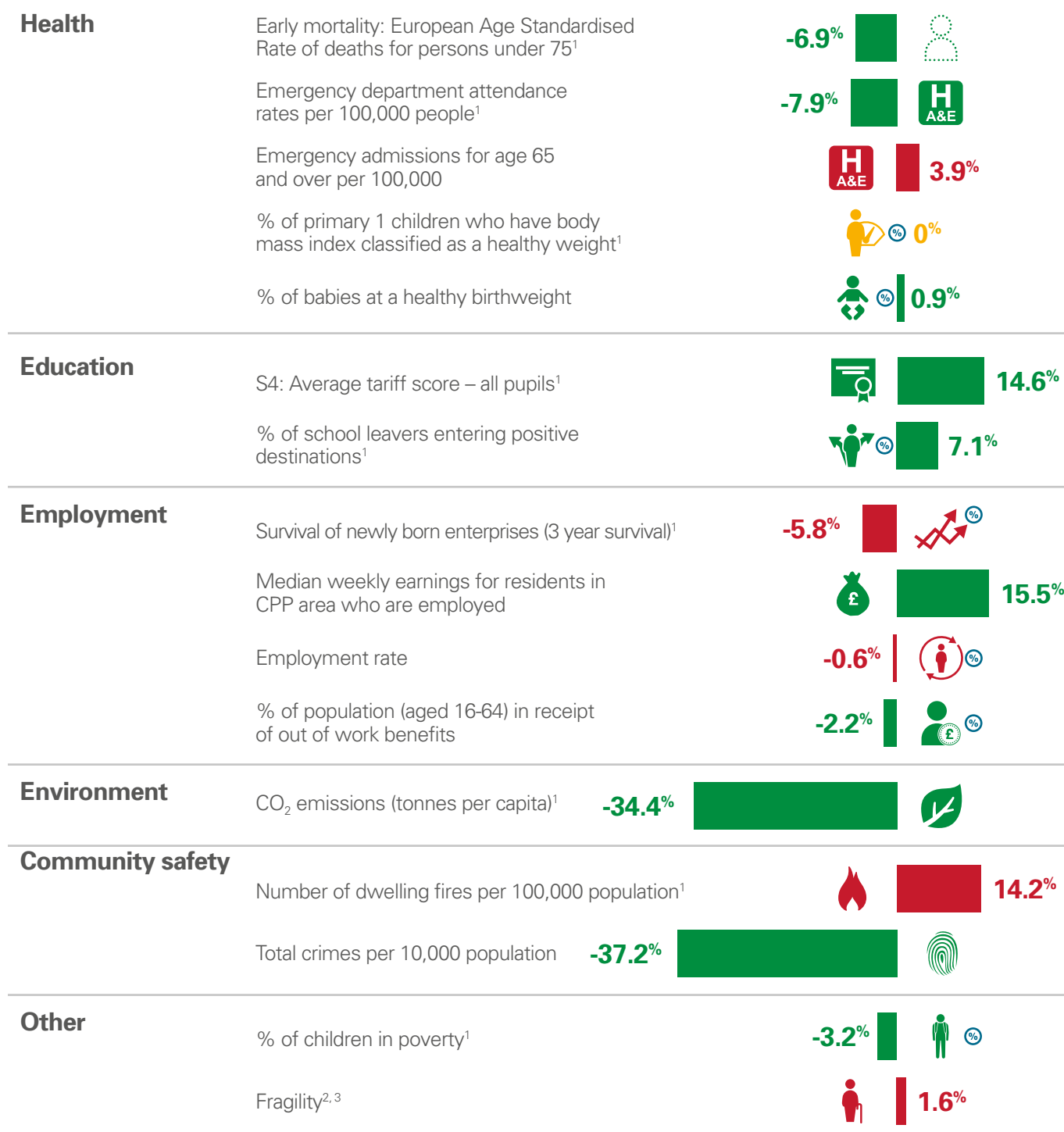
**67.** The Scottish Government's National Performance Framework measures and reports progress towards the Scottish Government's Purpose and national outcomes. The Improvement Service reports on progress against 18 outcomes, supported by 16 performance measures, through the Community Planning Outcomes Profile. Councils work with partners and communities through, for example, CPPs and IJBs to improve outcomes for communities. Changes in outcomes will be influenced by factors wider than council activity so cannot be solely linked to council activity. These measures are designed for use at a community or council level, but we have presented them at a Scotland level for this report. The 16 performance measures suggest that the majority of outcomes are improving across Scotland ([Exhibit 7, page 29](#)).



## Exhibit 7

### Changes in performance measures for Scotland's outcomes 2006/7 to 2016/17

Performance measures suggest that the majority of outcomes for Scotland's communities are improving.



 Percentage point change – raw data is not available therefore absolute changes are shown.

Notes:

1. Imputed and projected data has been calculated by the Improvement Service using different methodologies for measures where raw data is not yet available.

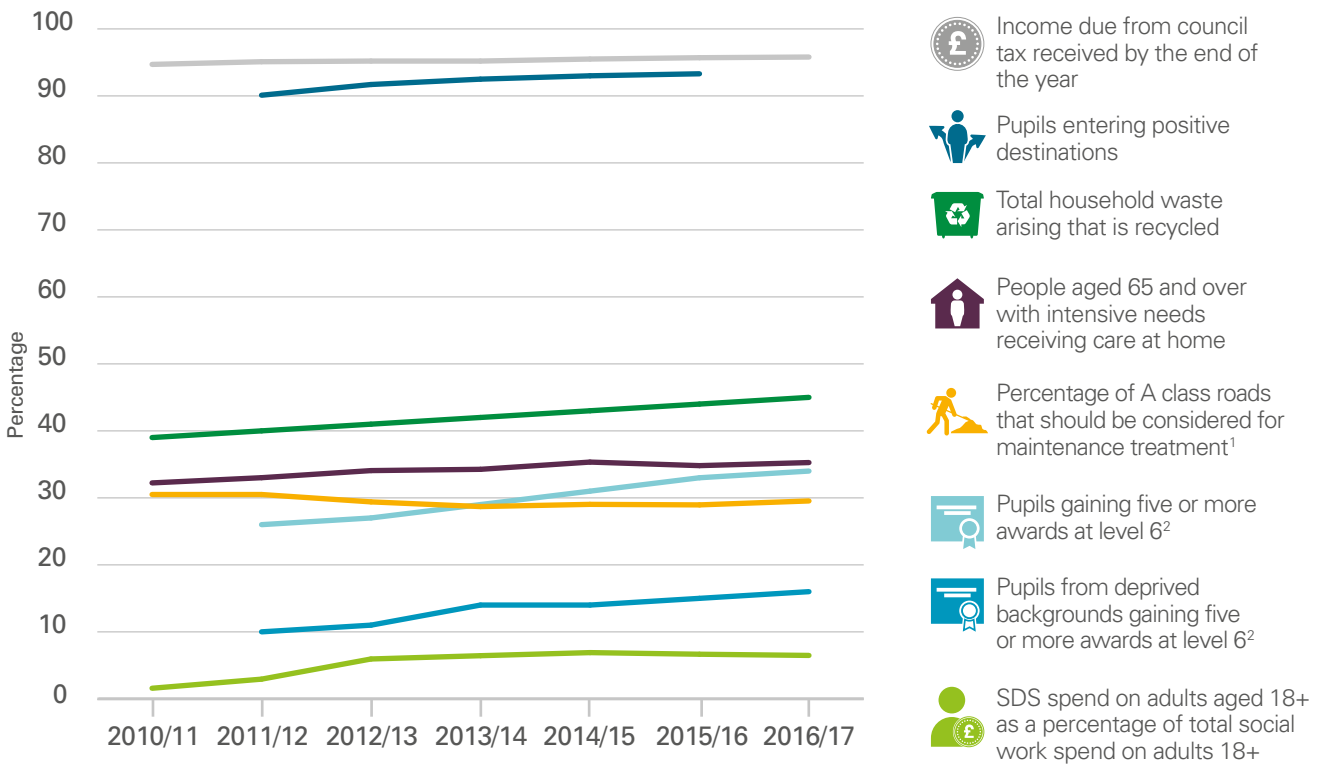
2. Fragility is a weighted combination of three indicators: de-population, rural de-population and old age dependency ratio.

3. Data uses rolling three year averages. All figures are based on community level data and so may have some discrepancies due to rounding.

Source: *Community planning outcomes profile*, Improvement Service, 2016/17

**68.** The Improvement Service, in partnership with councils, also collates and reports on the Local Government Benchmarking Framework (LGBF) to provide comparative performance information for councils to help them improve. The framework includes over 70 performance indicators. While these are not designed to comprehensively cover performance across all council activities, they are spread over a broad range of service areas. We selected for further analysis, a sample of eight measures which give an indication of council performance in services likely to be of significant interest to the public.<sup>37</sup> This shows that councils' performance for these indicators over the last six years has remained the same or improved, except for the proportion of social work spend on self directed support (SDS) which dropped slightly between 2015/16 and 2016/17 ([Exhibit 8](#)).

**Exhibit 8**  
**Performance against selected indicators, 2010/11 to 2016/17**  
 Performance has been maintained or improved.



Notes:  
 1. The percentage of A class roads that should be considered for maintenance treatment indicator is measured over two year periods, for example 2009-11 is plotted in 2010/11.  
 2. 2016/17 data is not available, national data is modelled to provide proxy measure.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2016/17*, Improvement Service



**69.** We have also analysed council spending against indicators to see what impact funding reductions have had on performance at a national level. This shows that despite spending less in most service areas, councils have maintained or improved performance on most of the selected measures ([Exhibit 9, pages 31-32](#)). It is important to note that a number of factors other than spend will impact on how services perform, and individual performance indicators do not show overall quality of a service.

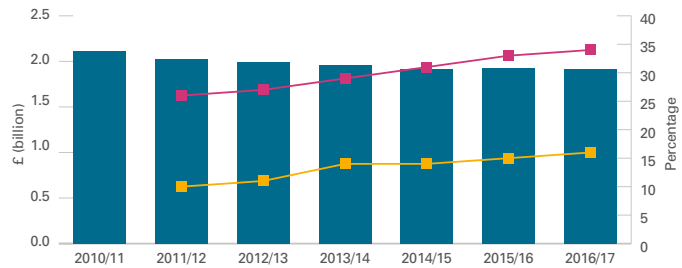
## Exhibit 9

### Performance and spend in key service areas, 2010/11 to 2016/17



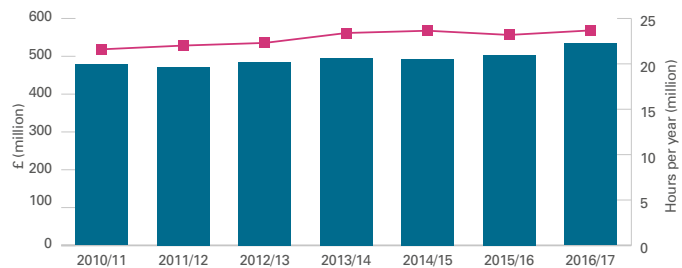
**Councils are spending less on secondary schools but pupils' attainment continues to improve.<sup>1</sup>**

- Gross expenditure on secondary schools (£ billion)
- Percentage of pupils gaining five or more awards at level 6
- Percentage of pupils from deprived backgrounds gaining five or more awards at level 6



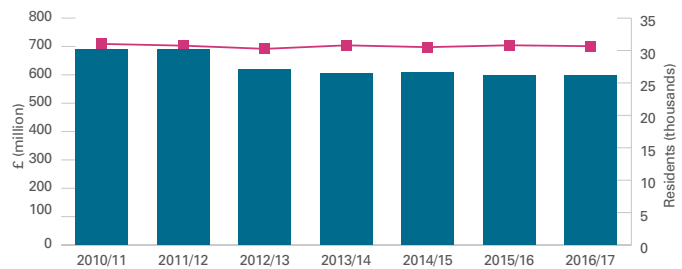
**Since 2010/11 the amount spent on homecare has increased at a faster rate than the number of home care hours.**

- Total expenditure on homecare (£ million)
- Homecare hours per year



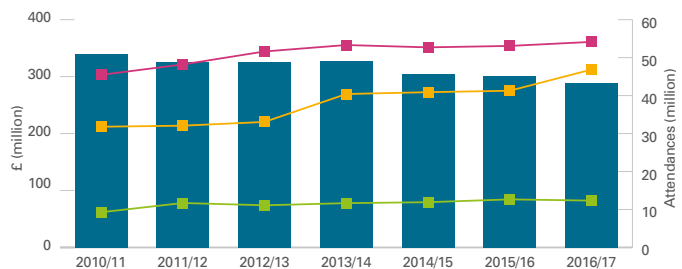
**Spending on residential care homes for older people has remained constant since 2012/13. The number of residents has remained at a similar level since 2010/11.<sup>2</sup>**

- Net expenditure on care homes for older people (£ million)
- Number of long-stay residents aged 65+ supported in care homes



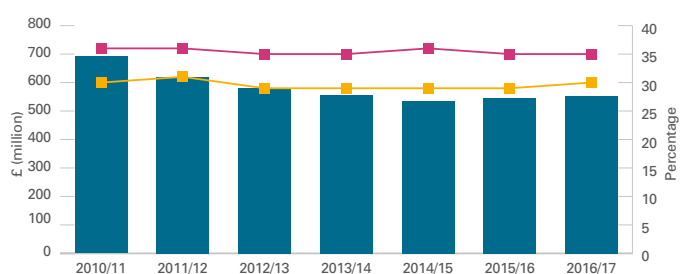
**Libraries, sports facilities and museums have all reduced spending but report increased visitor numbers.**

- Total expenditure on culture and leisure (£ million)
- Number of attendances at sports facilities
- Number of library visits
- Number of museum visits



**Councils spend 20 per cent less on road maintenance but the percentage of roads classified as needing to be considered for maintenance has remained constant.**

- Gross expenditure on roads and winter maintenance (£ million)
- Percentage of A class roads that should be considered for maintenance treatment
- Percentage of B class roads that should be considered for maintenance treatment

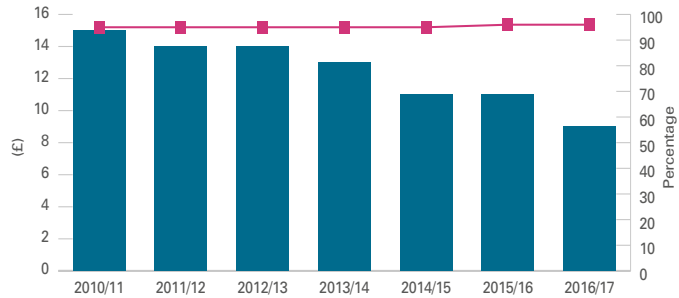


Cont.

## Exhibit 9 (continued)

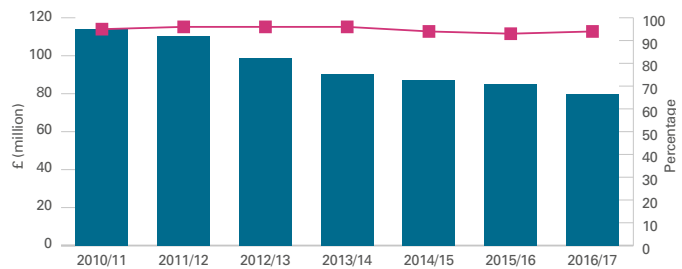
**The amount councils spend on collecting council tax has decreased by 41 per cent since 2010/11 but the percentage collected by the end of the year has remained at around 96 per cent.**

- Cost per dwelling of collecting council tax (£)
- Percentage of income due from council tax received by the end of the year



**Despite a 30 per cent reduction in the net cost of street cleaning per 1000 people since 2010/11, street cleanliness scores have only decreased by three percentage points.**

- Net expenditure on street cleaning (£ million)
- Street cleanliness score



**Notes:**

1. 2016/17 data is not available, national data is modelled to provide proxy measure.
2. 2010/11 and 2011/12 expenditure includes supports costs and so is not directly comparable to later years.
3. The percentage of A class roads that should be considered for maintenance treatment indicator is measured over two year periods, for example 2009-11 is plotted in 2010/11.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2016/17*, Improvement Service

### Council performance varies, sometimes significantly

**70.** A range of factors, such as levels of deprivation, rurality, demographics and local priorities and policy choices will have an impact on how services perform. The quality and effectiveness of leadership and management are also important factors. Analysis of LGBF data shows that there continues to be significant variation in performance among councils. For example in 2016/17:

- The amount of waste recycled varies from eight per cent in the Shetland Islands Council to 61 per cent in East Renfrewshire Council.
- The percentage of people aged 65 and over with intensive needs being cared for at home varies from 23 per cent in Scottish Borders Council to 50 per cent in North Lanarkshire Council.
- The percentage of pupils gaining five or more awards at level six varies from 22 per cent in Clackmannanshire Council to 63 per cent in East Renfrewshire Council.

**71.** The link between performance and spend also varies. For example between 2015/16 and 2016/17, 21 councils increased the amount of waste that was recycled. Of these ten increased the cost of waste collection while 11 reduced their costs (**Exhibit 10, page 33**). Fife Council have reduced the net cost of waste collection per premise by 25 per cent in real terms from £57 to £42, while increasing the percentage of waste recycled from 52 per cent to 55 per cent. Of the ten councils which are recycling less, seven had increased

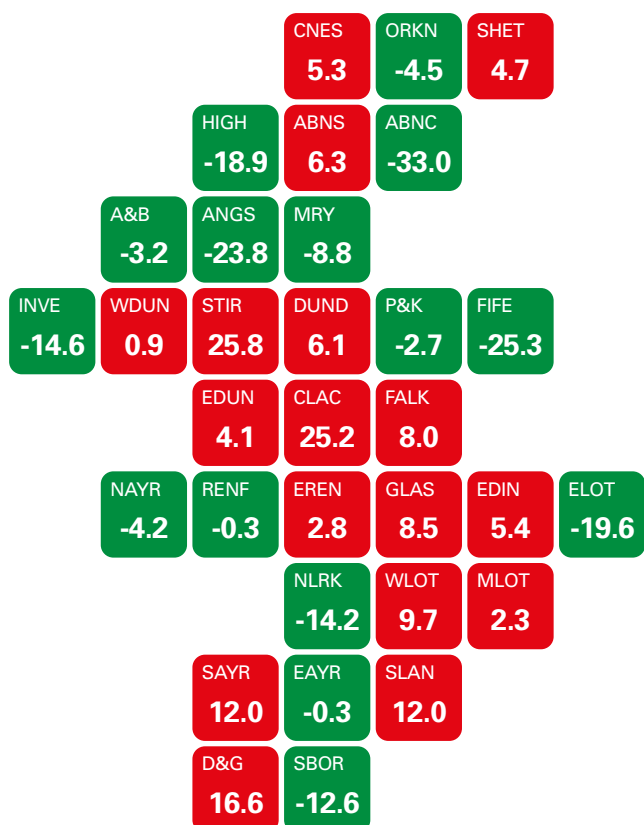
## Exhibit 10

### The cost of waste collection and the percentage of waste recycled, 2015/16 to 2016/17

Twenty-one councils increased the amount of waste that was recycled. Of these ten increased the cost of waste collection while eleven reduced their costs.



#### Percentage change in cost of waste collection



#### Percentage point change of waste recycled



■ **Reduced performance**  
Cost increase or less recycling

■ **No change**

■ **Improved performance**  
Cost decrease or more recycling

### Councils

**ABNC** Aberdeen  
**ABNS** Aberdeenshire  
**ANGS** Angus  
**A&B** Argyll and Bute  
**CLAC** Clackmannanshire  
**D&G** Dumfries and Galloway  
**DUND** Dundee  
**EAYR** East Ayrshire  
**EDUN** East Dunbartonshire  
**ELOT** East Lothian  
**EREN** East Renfrewshire

**EDIN** Edinburgh  
**CNES** Eilean Siar  
**FALK** Falkirk  
**FIFE** Fife  
**GLAS** Glasgow  
**HIGH** Highland  
**INVE** Inverclyde  
**MLOT** Midlothian  
**MRY** Moray  
**NAYR** North Ayrshire  
**NLRK** North Lanarkshire

**ORKN** Orkney Islands  
**P&K** Perth and Kinross  
**RENF** Renfrewshire  
**SBOR** Scottish Borders  
**SHET** Shetland Islands  
**SAYR** South Ayrshire  
**SLAN** South Lanarkshire  
**STIR** Stirling  
**WDUN** West Dunbartonshire  
**WLOT** West Lothian

Note: Due to inconsistencies with published data Glasgow and Shetland Islands councils have provided their own figures.

Source: Audit Scotland; and Local Government Benchmarking Framework 2016/17, Improvement Service


**72.** Variation in performance and spend suggests councils have the potential to deliver further improvements and efficiencies. For example, as we reported last year, if councils reduced staff sickness absence this would help increase productivity. Nationally the average number of sickness days for non-teaching staff has increased slightly from 10.63 in 2015/16 to 10.92 in 2016/17. Sickness absence rates for non-teaching employees vary from an average of 8.8 days in East Ayrshire Council to 16.5 days in Clackmannanshire Council. If councils with high absence levels could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of about 730 full-time employees across Scotland.

**73.** Sickness absence rates for teachers improved slightly from 2015/16 to 2016/17 from 6.09 to 6.06 days per teacher. This also varied by council from an average of 4.1 days in East Ayrshire Council to 9.8 days in Clackmannanshire Council. If councils with high teacher absences could reduce these to be in line with the top eight performing councils, they would gain the equivalent of about 260 full-time teachers in Scotland.

**74.** There may be valid reasons for the variation between performance and spend at a council level. Councils should continue to learn from each other through benchmarking groups and work to understand reasons for variation in performance and cost, identify any options for efficiencies, savings and service redesign. Councils have a duty to clearly report performance to local people. Our audit work has found that councils articulate their strategic priorities and plans well but often do not report how these connect to actual performance and outcomes. Good performance reporting includes clearly stating how performance and spend is linked to the council's priorities and using local indicators which demonstrate quality of service and public satisfaction.

#### **Not all variation in education performance can be explained by deprivation**

**75.** Improving school attainment and closing the gap between the achievements of the richer and poorer pupils is a Scottish Government priority and one shared by councils. Nationally pupil attainment has been increasing each year since 2010/11 across all measures ([Exhibit 9](#)). However, this still masks significant variation between individual councils. Using the measure of average tariff score, an overall measure of secondary attainment, the attainment gap between the most deprived and least deprived pupils has decreased by six per cent in the last six years.<sup>38</sup> However, the most deprived pupils are still performing only half as well as the least deprived pupils.

**76.** Councils with lower deprivation levels tend to have more children gaining five or more awards at level 5 and 6 and higher overall average tariffs than councils that have higher deprivation levels ([Exhibit 11, page 35](#)). East Renfrewshire Council and East Dunbartonshire Council have the lowest levels of deprivation and are performing considerably better on this measure than any other council. However, some councils (Aberdeenshire, Aberdeen City, and the Moray councils) might be expected to perform better than they are when their lower levels of deprivation are taken into account. Inverclyde Council has high levels of deprivation but higher attainment than similarly deprived areas. We examined the various factors which influence pupil attainment in our 2014 report on [School education](#) , and are planning a further audit of the sector in 2019/20.<sup>39</sup>

**77.** Councils should continue to work to understand the variations in performance between them, learn what has been successful in other councils and, where appropriate, apply these lessons to their own services.




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**How well does your council report performance to local communities? Is there a link to outcomes, priorities and budgets in your performance reporting?**

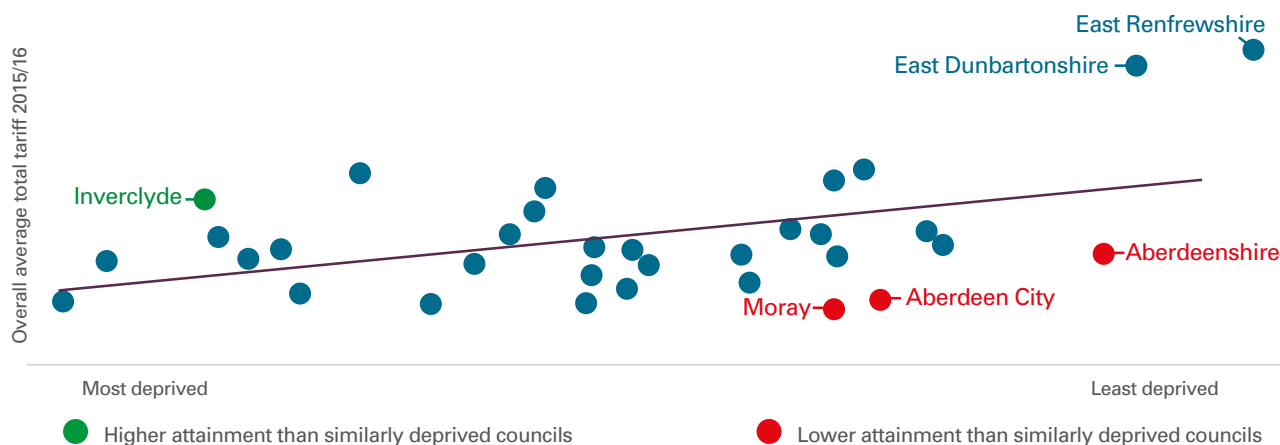
**Have you considered what lessons you can learn from other councils who are delivering services well?**

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## Exhibit 11

### Overall tariff scores for secondary school children compared with deprivation levels 2015/16

The link between attainment and deprivation varies across councils.



#### Notes:

1. The line shows the relationship between overall average total tariff and deprivation levels.
2. We have used 2015/16 attainment data. Data is not currently available by council for 2016/17.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2015/16*, Improvement Service



## There is some evidence that spending reductions and increasing demand are impacting on services



### Public satisfaction is falling

**78.** Different sources show public satisfaction is falling:

- LGBF indicators mostly show a decline in public satisfaction between 2010 and 2017, for example satisfaction with the following services is down:
  - local schools from 83 to 73 per cent
  - libraries from 84 to 73 per cent
  - museums and galleries from 76 to 70 per cent
  - leisure facilities from 75 to 73 per cent
  - street cleaning from 73 to 70 per cent
  - refuse collection from 81 to 79 per cent.

Some satisfaction levels have been maintained or improved:

- parks and open spaces has increased from 83 to 87 per cent.
- In 2016, the Scottish Household Survey found that only 56 per cent of adults were satisfied with three local public services (local health services, schools and public transport). This is the lowest level since it was first measured in 2007, and down ten percentage points in five years.<sup>40</sup>
- In a poll by PricewaterhouseCoopers in 2017, only 12 per cent of respondents in Scotland agreed that their council had become more effective over the last five years.<sup>41</sup>

How can you better engage with local communities to understand why public satisfaction is declining?

### There is evidence that adult social care services are not keeping up with demand

**79.** Adult social care services are a main and growing area of spend for councils. These services are now commissioned by IJBs. Social care services for older people are a key pressure area for councils and IJBs as Scotland's population ages. Between 2010/11 and 2016/17:

- The number of people aged 65 and over (and more likely to have two or more long-term conditions) increased by 13.2 per cent.
- The number of people aged 75 and over (and, more likely to have three or more long-term conditions) increased by 9.4 per cent.

**80.** Older people in need of support are cared for either in a residential care home or in their own home by visiting home care workers. Since 2011, the policy of many councils and the Scottish Government has been to move more care to a home setting.


**81.** National data suggests that spending on residential care is generally keeping up with the number of residents, while spending on caring for people at home has increased at a faster rate than the amount of care provided. National data on quality shows that care homes assessed by the Care Inspectorate as good or better has increased from 66 per cent in 2014/15 to 72 per cent in 2016/17 and home care services from 81 per cent to 83 per cent.

**82.** Despite an increase in the number of homecare hours, the number of people aged 65 and over who receive care at home fell by nine per cent. The Scottish Government reports that this is due to a focus on people with higher needs meaning that fewer people get more hours.<sup>42</sup> Although this means that councils can focus care on those with the highest needs, it does mean others no longer receive support. This has implications for early interventions which could improve peoples' quality of life and save money in the long-term by preventing people developing more complex needs.

**83.** Recent local inspections have raised significant concerns about social care services' ability to meet demand from older people and about the quality of care provided. The inspections at City of Edinburgh Council and Scottish Borders Council found that older people faced long waits for an assessment of their needs and a further wait to receive their care package following an assessment.

- In Edinburgh people waited 100 days for an assessment and 16 per cent of cases had an unreasonable delay after assessment. Often, this meant that the person's condition had deteriorated by the time they received their service so it was no longer adequate. These delays impacted on other health and social care services, especially hospitals, as people could not return home until care had been arranged for them.<sup>43</sup>
- In the Scottish Borders there was a nine week wait for top priority cases and a 15 week wait for the second level of priority. Even some people assessed as critical could struggle to get the support when they needed it. Overnight care for people at the end of their life who wanted to die at home was especially problematic. Inspectors found that staffing problems had led to a lack of consistency of care and although always treated with respect, some individuals had 24 different carers in a three-month period.<sup>44</sup>



**84.** We reported in our 2016 *Social work in Scotland*  audit, that people receiving care were most unhappy with the limited length of visits. In the survey, one person described facing a choice of breakfast or a shower as the carer could not provide both in the 15-minute appointment slot. A survey of home care workers by Unison in 2016, found that 80 per cent felt that their service had been affected by budget reductions and many staff described this as a focus on 'quantity not quality'.<sup>45</sup> The Care Inspectorate reported that the number of complaints upheld for adult care homes increased by five per cent between 2014/15 and 2016/17.

**85.** East Lothian Council has also reported a backlog of residents waiting for a care package due to a lack of capacity within care providers.<sup>46</sup> It is unlikely that these are isolated examples as elderly populations are growing in all council areas in Scotland and this trend is set to continue (**Exhibit 4**). The Competition and Markets Authority concluded recently that the model for residential care was unsustainable without additional funding.<sup>47</sup> Councils and IJBs face significant challenges in delivering social care. They will need to consider how to transform their social care services so that older people are able to access the care they need.

### There is a risk that reduced spending in education is affecting pupils' learning experience and staff morale

**86.** Education is the largest area of council spend. Spending on schools, including pre-schools, has been increasing since 2015/16 when the Scottish Government introduced its School Attainment Challenge. Despite this, national data shows that since 2010/11 spending on schools has not kept up with trends in pupil numbers:

- Spending on primary education has reduced by two per cent despite pupil numbers increasing by nine per cent.
- Spending on secondary education has reduced by nine per cent while pupil numbers have fallen by seven per cent.

**87.** Teacher-to-pupil ratios are protected by Scottish Government policy and funding. Since 2012/13, teacher-to-pupil ratios have increased slightly in primary schools and stayed the same in secondary schools, while the number of class room assistants increased by 13 per cent over that period. However, since 2012/13:

- administration and clerical support staff have been reduced by 11 per cent
- library staff have been reduced by 16 per cent
- music instructors have been reduced by 30 per cent
- additional support needs care workers have been reduced by 13 per cent despite a 44 per cent increase in children with additional support needs over the same period.<sup>48</sup>

**88.** There is no national data showing the impact of these staffing changes. However, there is a risk that unless alternatives are provided, the reduction in library and music staff could result in a less rich and varied learning experience. Similarly, the reductions in additional support staff could mean some children are not receiving the support they need.

**89.** A study for the Educational Institute of Scotland in 2017 found that 40 per cent of teachers were considering leaving their job in the next 12 months. They found the




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**How are your council and IJB managing demand for social care services? What preventative measures are available in your council?**

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main cause of stress was an excessive administration workload and lack of preparation time.<sup>49</sup> In a 2017 survey by UNISON, 60 per cent of support staff reported that morale was low and 40 per cent claimed to work unpaid overtime every week.<sup>50</sup>

**90.** Some councils are reporting difficulties recruiting staff and some schools cannot offer higher level exams in some subjects due to a lack of suitably qualified staff.<sup>51</sup>

### Smaller services are affected more by budget cuts but the impact of this is not always clear

**91.** Smaller services have experienced greater levels of budget reductions. Although nationally published data does not break down staff by department, there is evidence that sizeable staff reductions have affected these services.

- The Royal Town Planning Institute Scotland identified a 23 per cent reduction in staffing of planning teams in local government since 2009.<sup>52</sup>
- The Society of Chief Officers of Environmental Health in Scotland reported an eight per cent fall in environmental health services posts between 2016 and 2017.<sup>53</sup>
- COSLA reported a 20 per cent decrease in the workforce for trading standards, but did not specify over which time period.<sup>54</sup>

**92.** These departments and others provide important services to communities, such as inspecting building standards and public health; there is a risk that staffing pressures and budget cuts could lead to errors with potentially serious consequences to the public. As the Commission reported in 2013, the long-term viability of councils' trading standards services is under threat, potentially leaving consumers without important protection.<sup>55</sup>

**93.** Keep Scotland Beautiful reports that overall local environmental quality has reached its lowest point in over a decade. This is after a marked increase in the presence of litter, fly tipping, graffiti and weeds in communities over the last 18 months.<sup>56</sup> Councils also report that fly tipping has increased from 6.22 incidents per 1000 households in 2014/15 to 9.23 incidents in 2016/17.<sup>57</sup>

**94.** Funding for Money Advice Services reduced by around 15 per cent in 2015/16 and this is set to continue. Although councils have sought to minimise the impact of cost reductions to the Money Advice Service by transforming services, these cuts have also reduced the availability of locally based services. These types of reductions could disproportionately affect the most disadvantaged and vulnerable as 80 per cent of people using these services have a household income of under £15,000.<sup>58</sup> Limiting access to this service can diminish the wellbeing of people who might use them. It could also make it more likely they will require help from other council services such as social care and homelessness services.

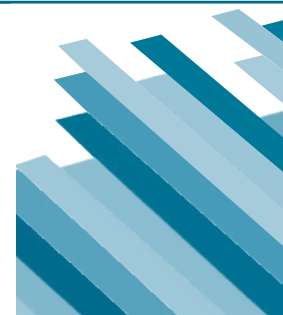
**95.** We recognise that councils will prioritise some services over others to reflect their strategic priorities. Our audit work has found that generally councils are good at setting clear strategic priorities but that links to how these will achieve improved performance and outcomes are poor. Councils should be able to clearly set out the impact sizeable budget reductions have had on performance and outcomes so that decisions on funding are based on solid evidence. This is an area we plan to examine further in our 2019 report.











Do you know how budget cuts have affected your smaller services?


Do you know the impact of spending reductions on the services your council provides?

# Endnotes



- ◀ 1 *Scottish Household Survey*, Scottish Government, 2016.
- ◀ 2 [Best Value Assurance Report: Clackmannanshire Council](#) , Audit Scotland, January 2018.
- ◀ 3 *Scottish Household Survey*, Scottish Government 2016.
- ◀ 4 Local Government Elections 2017. Scottish Parliament Information Centre, May 2017.
- ◀ 5 Revenue funding includes the general revenue grant, non-domestic rate income and specific revenue grants. Figures for 2017/18 and 2018/19 are based upon the annual totals set out by the Scottish Government in 'Local Government Finance Circular No. 4/2018' and we have compared 2017/18 outturn to the 2018/19 budgeted funding. These totals reflect a £34.5 million redetermination of funding in 2017/18 being classified as funding to councils for 2018/19. We will consider any implications of this funding arrangement for councils during both the 2017/18 annual audit process and our subsequent financial overview of local government.
- ◀ 6 [Local Government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017.
- ◀ 7 Unison submission to the local government and communities committee's scrutiny of the 2018/19 budget.
- ◀ 8 Angus, Dumfries and Galloway, East Lothian, Orkney and Renfrewshire had no live claims in September 2016.
- ◀ 9 Local Government Finance Statistics 2016/17, Scottish Government.
- ◀ 10 North Ayrshire Council's submission to the local government and community committee's scrutiny of the 2018/19 budget.
- ◀ 11 Additional predictions by the National Records for Scotland consider the impact on population growth if migration from the EU changed. Scotland's predicted population growth to 2041 varied from seven per cent if immigration from the EU increased by 50 per cent to two per cent growth if there was no immigration from the EU. This affected working age people and children more than the elderly.
- ◀ 12 Barnett K, Mercer SW, Norbury M, Watt G, Wyke S, Guthrie B. *Epidemiology of multi-morbidity and implications for health care, research, and medical education: a cross-sectional study*. The Lancet, 2012.
- ◀ 13 *The demography of Scotland and the impact of devolution*, Scottish Affairs Committee, Westminster.
- ◀ 14 'Dependency' ratios are a useful way to examine the relative age structure of the population but the reality is more complex than they suggest, many people of typically working age are not economically active (for example students) and many retired people are financially independent.
- ◀ 15 [Local government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017. This contains further information on reserves.
- ◀ 16 Ibid.
- ◀ 17 Joint Staffing Watch figures, Scottish Government. All staffing figures are in Full Time Equivalent (FTE). Figures for most councils are rounded to the nearest 100. Figures for Aberdeen City and Glasgow City Councils are rounded to the nearest 1,000.
- ◀ 18 Joint Staffing Watch figures show 226,800 FTEs in Q1 2009 and 205,800 in Q1 2012.

- ◀ 19 Joint Staffing Watch figures show 205,800 FTEs in Q1 2012, 198,300 in Q1 2016, and 195,800 in Q1 2017.
- ◀ 20 Joint Staffing Watch figures show 196,600 FTEs in Q3 2017, 196,200 in Q3 2016, 229,000 in Q2 2008 and 228,500 in Q2 2007.
- ◀ 21 Joint Staffing Watch figures for Inverclyde Council show 3,900 FTEs in Q1 2010.
- ◀ 22 Joint Staffing Watch figures for Inverclyde Council show 3,400 FTES in Q1 2017.
- ◀ 23 *Scottish Social Service Sector: Report on 2016 Workforce Data*, Scottish Social Service Council, September 2017.
- ◀ 24 Information comes from three Unison reports: *A Unison survey of building control staff*, June 2017; *A survey of Scotland's school support staff*, January 2017; *A survey of care workers in Scotland*, July 2017.
- ◀ 25 Office for National Statistics, *Analysis of factors affecting earnings using Annual Survey of Hours and Earnings: 2016*.
- ◀ 26 The Smith Institute. *From pay squeeze to a staffing crisis: a study of recruitment and retention in the NHS and local government, 2015*.
- ◀ 27 *Talent Management in Public Services in Scotland*, Improvement Service, 2017.
- ◀ 28 [Local Government in Scotland: Performance and challenges](#) , Audit Scotland, March 2017.
- ◀ 29 [Local Government in Scotland: Financial overview 2016/17](#) , Audit Scotland, November 2017.
- ◀ 30 Ibid.
- ◀ 31 *Local Government Finance: Fees and Charges 2011-12 to 2015-16*. Scottish Parliament Information Centre, 2017.
- ◀ 32 *Local Authority Parking Finances in Scotland 2015-16*, RAC Foundation for Motoring, 2017.
- ◀ 33 *The Cost of Saying Goodbye*, Citizens Advice Scotland, 2017.
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# Local government in Scotland Challenges and performance 2018

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# Councils' use of arm's-length organisations



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
May 2018

# The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 

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



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## Audit team

The core audit team consisted of: Carol Calder, Peter Worsdale and Derek Hoy, with support from other colleagues and under the direction of Ronnie Nicol.

## Links

-  PDF download
-  Web link

# Key facts



Number of ALEOs estimated in Scotland

**130**  
ALEOs  
turnover  
**£1.3bn**

**65**  
ALEOs  
turnover  
**£550m**

Number of charitable ALEOs. They receive an estimated relief of £45 million on non-domestic rates

**4**  
councils

Four councils have eight or more ALEOs

**3**  
councils  
turnover  
**£186m**

Number of councils with social care ALEOs. They employ over 5,300 FTE staff

**25**  
councils  
turnover  
**£430m**

Number of councils with leisure and/or culture ALEOs

# Summary



## Key messages

- 1** Arm's-length external organisations (ALEOs) are separate organisations used by councils to deliver services. They can bring both financial and operational benefits.
- 2** Councils should consider the risks associated with ALEOs at the outset. Oversight, accountability and good management are essential. In managing ALEOs, councils should continue to apply the principles in the Following the Public Pound Code (FtPP).<sup>1</sup>
- 3** Councils have improved and strengthened their oversight of ALEOs. They need to set clearer criteria for how councillors and officers are involved with ALEOs, and demonstrate more clearly how ALEOs secure Best Value.
- 4** Councils show improving practice in evaluating ALEOs as an option for delivering services. They could do more to involve the public and other stakeholders in the process.
- 5** Taxation advantages for registered charities have been a strong driver for councils establishing ALEOs. Following a Scottish Government review, these benefits are now less certain and some councils are exploring other options.
- 6** ALEOs have brought benefits including reduced service costs, increased uptake in sports and leisure, and improved standards of care. Councils need to better demonstrate how their use of ALEOs improves outcomes for people (by outcomes we mean the local improvements councils and their partners seek to make such as people's health and wellbeing, and a better-quality environment).
- 7** The context in which ALEOs operate is changing and cost pressures remain. Councils must have clear reasons for establishing ALEOs and consider alternatives. In doing so they should be clear on the risks involved, and work closely with local communities and businesses.

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**ALEOs have brought benefits but need to be managed carefully**

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## Recommendations

### We have identified the following recommendations for councils:

In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should:

- examine wider options that can bring similar benefits to ALEOs such as reorganising an existing service, sharing services with other councils, or involving the local community
- demonstrate how ALEOs help the council meet its objectives and improve outcomes for their communities
- set clear criteria for reviewing an ALEO, considering risks, performance and how it fits with council priorities.

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they:

- oversee the performance, financial position, and associated risks of ALEOs
- have clear reasons for appointing councillors and officers to ALEO boards, recognising the responsibilities and requirements of the role, and the risks of conflicts of interest
- provide training, support and advice from both the perspective of the council and the ALEO. This should include legal responsibilities, scrutiny and oversight, and conflicts of interest
- have processes in place to manage any potential conflict of interest of elected members and officers involved in the operation of ALEOs
- take an active role in managing their relationship with ALEOs, including their compliance to service level agreements, contracts and other obligations
- make information about ALEO funding and performance clear and publicly available.

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## Background

1. In local government, services can be delivered in a variety of ways. In Scotland the term arm's-length external organisation or ALEO, has come to be used where a separate body with its own legal identity is set up by a council to deliver services. Local government services are also delivered through community planning partnerships, integrated health and social care boards, valuation joint boards, and regional transport partnerships. Unlike these statutory arrangements, ALEOs can be created at the discretion of the council, within the boundaries set by local government legislation.

2. ALEO is a descriptive term for a delivery approach that can take many forms. It is not a legal definition. We describe an ALEO in [Exhibit 1](#).

## Exhibit 1

### What is an ALEO?



## Arm's-length external organisation



An arm's-length external organisation (ALEO) is a term used to describe an organisation that is formally separate from the council but is subject to its control or influence. The level of control or influence can vary.



ALEOs can take many forms including companies, community enterprises, charitable organisations and trusts. Services they deliver include leisure, transportation, property development, and care services.



The council might own the ALEO. It might have representatives on the ALEO board. It might be the main funder or shareholder of an ALEO.




ALEOs can be set up as non-profit-making organisations and as charities to promote public benefit in areas such as health, education, recreation and equal opportunities.

Source: Audit Scotland

3. ALEOs are an established feature of local government in Scotland. Their use grew throughout the 1990s in areas such as sports and leisure and urban regeneration, and they are now used by most councils to provide a range of activities. Arm's-length organisations are also long established in England and Wales and are used in areas such as buildings management, social care, housing and children's services. Depending upon their form and functions they may be referred to as arm's-length organisations (ALEOs); local authority trading companies (LATCs); and arm's-length management operations (ALMOs).

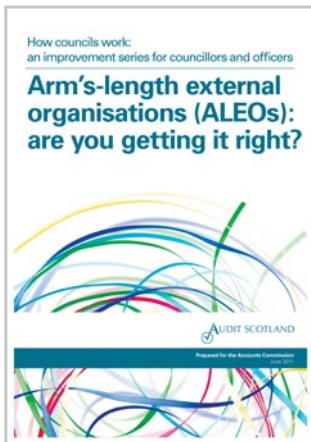
### The Accounts Commission has a continuing interest in ALEOs

4. The Accounts Commission has a strong and continued interest in how councils use ALEOs. This performance audit builds on the good governance messages of our earlier work. It also examines further the reasons councils use ALEOs, and the extent to which they are improving services and meeting their intended objectives. We will continue to examine councils' use of ALEOs in our audit work in councils.

- In June 2011, the Accounts Commission published its [How councils work: Arm's-length external organisations \(ALEOs\): are you getting it right?](#) . This set out good practice and highlighted the risks and opportunities of using ALEOs ([Exhibit 2, page 8](#)). The report provided checklists and a self-assessment tool to highlight good practice for councillors and officers.

## Exhibit 2

### 2011 How councils work ALEOs headline messages



- The Following the Public Pound principles provide the basis for sound governance
- Decisions to use ALEOs should be based on an options appraisal and sound business case
- Sound governance is needed from the outset
- Conditions attached to the use of public funds should be clear
- Clarity on roles and responsibilities is vital
- Councillors and officers require ongoing advice and training

Source: Audit Scotland

- The How councils work (HCW) report built on the principles set out in the FtPP code. This sets out how councils should manage their relationships and be accountable for ALEOs and other external bodies they are involved with. It is based on the premise that, to ensure public money is used properly, it must be possible to 'follow the public pound' across organisational boundaries.
- In March 2015, the Accounts Commission carried out follow-up work on its HCW report. This identified some improvements in councils' governance of ALEOs, and found that the standard of practice varied. The Commission wrote to all council leaders and chief executives to emphasise the need for good governance, including monitoring and reviewing the performance, costs and risks of ALEOs.

### About this report

5. We have examined practice across a sample of councils to highlight messages for all councils. The audit did not focus specifically on any individual council or ALEO. We also drew on findings from our audit activity across all councils. Our audit approach is set out in [Appendix 1 \(page 39\)](#), and our audit examined the following:

- Councils' reasons for using ALEOs.
- How councils oversee and govern ALEOs.
- What ALEOs have achieved.

6. This report has four parts:

- [Part 1 \(page 9\)](#) gives an overview of ALEOs and why councils use them.
- [Part 2 \(page 17\)](#) considers councils' oversight and governance of ALEOs.
- [Part 3 \(page 27\)](#) examines what ALEOs have achieved.
- [Part 4 \(page 35\)](#) considers the future direction of ALEOs.

# Part 1

## How councils use arm's-length external organisations



### Key messages

- 1** ALEO is not a legal definition but is a term that applies to separate organisations used by councils to deliver services. ALEOs provide many different services and can take many forms. Most councils use them to varying degrees. Around half are registered charities.
- 2** Councils need to examine a wide range of options to deliver the best outcomes for their communities. ALEOs bring the benefits of a more independent organisation, while allowing councils to retain some control or influence.
- 3** Councils show improving practice in how they plan to use ALEOs including detailed business cases. However, few have an overall policy for how they should consider options. Councils could do more to involve public and other stakeholders in the process.
- 4** Taxation advantages of charitable ALEOs have been a strong driver for their use. These are now subject to change and councils are considering other options.
- 5** ALEOs bring further benefits through their ability to trade more widely and attract new funding. They also provide a responsive and more focused operating model under the direction of a dedicated board.

tax benefits have been a driver for ALEOs but these may change

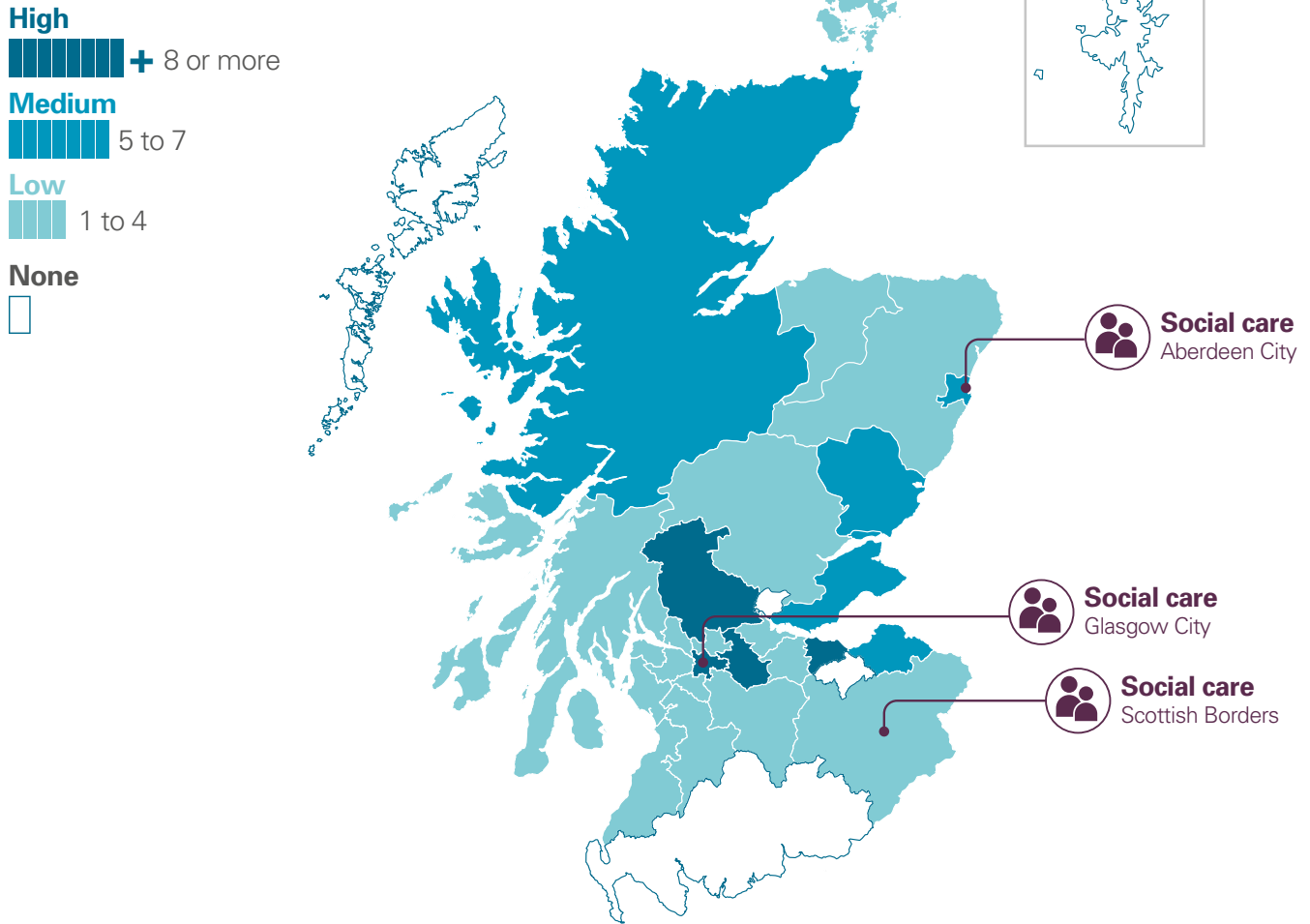
### Most councils use ALEOs and their use continues to evolve

**7.** The range of ALEOs in Scotland is extremely diverse in size, function, and structure. Almost all Scottish councils use ALEOs to varying degrees. Larger urban councils are more likely to have a higher number of ALEOs. They are also more likely to have ALEOs that have been set up to achieve more commercial objectives, such as property development, conference facilities and marketing.

**8.** There are inconsistencies in how councils identify ALEOs and make information about them available. Indeed, there is little consensus even on what an ALEO is. This together with ongoing changes in their use, makes it difficult to quantify the number of ALEOs. [Exhibit 3 \(page 10\)](#) shows the use of ALEOs across councils and the functions they provide. This is based on information available to us from our 2015 follow-up work on ALEOs, councils' annual accounts, and ongoing changes we are aware of across councils, the most significant of which are summarised in [Exhibit 4 \(page 11\)](#).

### Exhibit 3

#### ALEO use across Scottish councils

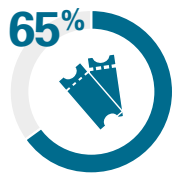


Approximate numbers of councils using ALEOs to deliver the following services:



Around 25 councils  
**Sport and leisure<sup>1</sup>**

Includes leisure centres, swimming pools and sports development.



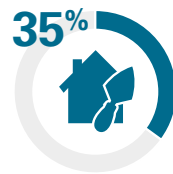
Around 20 councils  
**Cultural services<sup>1</sup>**

Includes museums, galleries, theatres and libraries.



Around 15 councils  
**Economic development and regeneration**

Includes employability services, business support and physical regeneration.



Around 10 councils  
**Property**

Includes property development, management and maintenance.



Three councils<sup>2</sup>  
**Social care services**

Includes care homes, homecare services and day centres.

Other activities delivered through ALEOs include waste management, energy and community safety.

Notes:

- 1. Thirteen councils have joint leisure and culture ALEOs.
- 2. The three councils are Glasgow City, Aberdeen City and Scottish Borders.



## Exhibit 4

### Recent changes with ALEOs



#### Recent and ongoing changes in the use of ALEOs

- The City of Edinburgh Council had consolidated its property development companies under one body – Edinburgh Development Initiative (EDI). It is now disbanding EDI to bring its property functions back into the council.
- Glasgow City Council has entered into a joint venture with the Wheatley Group to share ownership of its property maintenance ALEO, City Building.
- Glasgow City Council has wound up its city marketing ALEO and transferred its functions to its leisure and culture ALEO, Glasgow Life. It is bringing its social care and facilities management ALEO, Cordia, and its community safety ALEO back into the council.
- Some councils including Dundee and Scottish Borders have merged cultural and leisure services into a single ALEO.
- Some smaller ALEOs have been wound up, and their functions transferred to larger ALEOs, eg Dundee Ice Arena was transferred to Leisure and Culture Dundee.
- Some ALEOs are set up for a limited duration. For example, Steadfast Homes LLP is a partnership between Stirling Council and Scottish Futures Trust to provide mid-market rent properties, anticipated to operate for up to ten years.

Source: Audit Scotland

**9.** The diversity of financial arrangements across ALEOs makes it difficult to give a meaningful financial overview of them. In 2015, we estimated that spending through ALEOs was over £1.3 billion, with ALEOs accounting for around a quarter of the total spending for Glasgow City Council, their largest user.

#### ALEOs can be set up in many ways and take different legal forms

**10.** ALEOs are legally separate bodies from the council and can take different forms ([Appendix 2, page 40](#)) There are many possible variations within these, for example charities can operate trading subsidiaries such as a café in a museum or leisure centre.

**11.** Most ALEOs across our sample group of councils take the form of limited companies or limited liability partnerships and are wholly owned by the council. This means that the council is the ultimate decision-maker, with powers to wind up the ALEO or to determine board membership. It also sets the ALEO's objectives and powers. In the case of joint venture companies, third parties can also hold a stake in the ALEO, an example being property joint ventures with the council and private sector as partners.

**12.** We estimate that around half of ALEOs are registered charities. The majority of these provide leisure and cultural services, other examples include urban regeneration and tourism. ALEOs that have charitable status are regulated by the Office of the Scottish Charity Regulator (OSCR).<sup>2</sup> Charities must have a defined charitable purpose, for example in the areas of health, education, recreation or equal opportunities. Charities are non-profit making and are required to reinvest any surpluses to further their activities. The trustees of charitable ALEOs have duties over and above those of the directors of non-charitable ALEOs.

## Councils' reasons for using ALEOs

**13.** We examined councils' reasons for using ALEOs, including the effectiveness of their use of options appraisal and business cases to reach decisions. The statutory duty of Best Value, within the Local Government in Scotland Act 2003 (LGISA), requires councils to secure the best options for providing services to their communities. It requires them to demonstrate continuous improvement and deliver good-quality services at reasonable cost. The legislation aims to remove barriers to innovation, but put in place safeguards that make councils accountable for how they use public money.<sup>3</sup> The main options open to councils include:

- reorganising the way the council itself provides services
- 'outsourcing' or contracting services to private providers or the third sector such as voluntary groups and charities
- entering into partnerships with other councils or providers
- establishing 'arm's-length' bodies to deliver services
- any combination or hybrid of the above.

**14.** Implementing an ALEO or any other new delivery option is a complex and expensive process. It involves thoroughly appraising the options available and a sound business case. Councils must consider many detailed operational, legal, financial and commercial factors, and the risks involved. Set-up costs can be several hundred thousand pounds, and the time from the initial appraisal through to implementation can be more than a year. It follows that councils must proceed with caution when pursuing any new approach.

**15.** We found that councils have consistent reasons for using ALEOs. Generally, where councils provide services themselves they see direct control as an advantage. Contracting services to the private sector can save money, but reduces a council's control and influence. Councils see ALEOs as a good compromise between these two options. Though not without risk, the council can retain a degree of control or influence, and the ALEO can bring the benefits of a separate and more independent organisation. Business cases we examined identified these potential benefits of ALEOs:

- Taxation benefits of a charitable organisation including relief on non-domestic rates.
- Ability to generate income from additional services, and attract new income from funding, donations, sponsorship or loans.
- Strong service or commercial focus as a smaller more independent organisation under the direction of a dedicated board.
- Ability to involve public stakeholders in the management and direction of their services.
- Ability to foster a positive working relationship with an ALEO as a 'trusted partner'.

**16.** Councils saw the dedicated board of an ALEO as a strength. These can involve community and industry representatives and bring wider experience and new opportunities.

### Business case assumptions may change over time

**17.** Many councils had established charitable ALEOs such as those for leisure and culture to benefit from relief on non-domestic rates (NDR). Some business cases we examined identified this as a way for councils to meet their savings targets without having to cut services. Business cases identify NDR relief as a specific benefit provided that the ALEO meets the requirements for charitable status. While NDR relief can bring benefits locally, it offers no net financial gain to the public sector.

**18.** The ALEO model is also seen to bring a more commercial focus to generate income and attract new funding. In the case of charities, their charitable status is also seen as a safeguard against an overly commercial approach. Another unique benefit of charities is their ability to attract specific funding and donations.

**19.** In 2017, the Barclay Review into non-domestic rates brought the availability of NDR relief into question ([Exhibit 5](#)). It estimated that overall, charitable council ALEOs save £45 million annually through relief on NDR. Had the recommendation been accepted by the Scottish Government, the impact on the viability of leisure and other charitable ALEOs would have been significant. As things now stand, the policy changes make charitable ALEOs a less attractive option for councils. We are aware of at least one council that is reconsidering its proposal to form a culture and leisure ALEO following this development.

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## Exhibit 5

### The Barclay Review



### The Barclay Review

was set up in 2017 to examine and recommend reforms to the business rates system in Scotland.

One of the Barclay Review recommendations was to end the rates relief offered to ALEOs as this was seen to be an unfair advantage in a competitive market. In its response to the review, the Scottish Government announced in November 2017 that rates relief will remain in place for qualifying facilities already operated by councils. However it indicated it would offset any further charity relief benefit for future ALEO expansion by councils, for example by limiting their grant funding.

Source: Audit Scotland

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**20.** Councils can make a stronger business case where the benefits are clearly linked to improved outcomes for citizens and communities. That is, the choice is not based on a narrow financial advantage that may be subject to change.

**21.** The more recent business cases we examined do consider a wide range of financial and operational factors. Financial considerations, of NDR relief and the treatment of VAT were the most prominent features in the earlier business cases we looked at.

**22.** Business case assumptions may change and need to be reconsidered during the design and set-up of an ALEO. We found more effective practice where councils identified risks, and re-evaluated business case assumptions before taking a final decision.

### **Councils are improving how they plan for and appraise ALEOs**

**23.** Our sample group of councils have significant experience in contracting, options appraisal and implementing change. The options appraisal and business cases we examined were comprehensive and detailed. Councils use external consultancy expertise in more complex legal and financial matters. They also draw on evidence from similar organisations that have been set up elsewhere. [Exhibit 6](#) summarises good practice we identified and highlights areas where councils could improve.

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## **Exhibit 6**

### **Options appraisal and business case**

#### **Effective practice**



- Clearly specifying service quality, financial, operational, accountability and other factors, on which to base decisions.
- Objective process to evaluate factors for example using scoring.
- Using external expertise for more technical, legal, financial, and other operational matters.
- Including all set-up and implementation costs in the appraisal.
- Using a third party expert to verify the process and assumptions.
- Revisiting assumptions throughout the process.
- Incorporating risk management from the outset through to implementation.

#### **Where things can improve**



- Setting clear corporate guidelines for how options are to be considered.
- Being clear why the council identified its chosen range of options, and which options it may have excluded.
- Involving the public and interested communities, such as local businesses.
- Assessing the impact on local interested communities.
- Including contingency planning at the outset.

**24.** Councillors must provide strategic direction and understand the range of options the council is considering. Options appraisals should clearly set out the alternatives along with their respective benefits and risks. This is important as part of open and transparent decision-making and public scrutiny. We saw evidence of improving practice in this area. More recent options appraisals presented councillors with a good level of information across a range of options including contracting with private sector, or using community enterprises. However, we also found options appraisals that considered only a narrower set of options, and did not explain why options such as outsourcing had not been included.

**25.** Councils should also consider the risks of various options, and be clear what happens if an ALEO fails to meet its objectives. Such contingency planning should be considered at the outset. We found that while business cases tended to consider these factors in some detail, there was less evidence of contingency planning featuring at the initial options appraisal stages.

### **Few councils have guidelines for making service delivery choices**

**26.** Most of our sample councils undertook options appraisals on a case-by-case basis. Few have guidelines in place to set out the council's overall approach, for example the trigger points for reviewing a service and the criteria to apply when looking at options.

**27.** The Highland Council has introduced its redesign review process to examine delivery options across all services. This aims to strengthen councillors' and officers' understanding of options, including ALEOs, as part of all service reviews. North Lanarkshire Council has introduced an ongoing review process to cover all its significant ALEOs over a three-year cycle. These reviews consider how the ALEO contributes to the council's priorities and offers value for money.

**28.** One council from our sample had expressed 'a presumption of in-house provision unless there are service performance issues' within one of its organisational change programmes. This contrasts with another council that had expressed the presumption of 'using third sector parties or ALEOs where services can be delivered safely, more cost effectively and efficiently.'

**29.** What is important is that councils can demonstrate that any policy position enables them to secure Best Value. This means making an objective assessment of cost, quality and other service benefits. Otherwise there is a risk the council will miss the best options to sustain or improve a service.

### **Councils could do more to involve communities in their choice of options**

**30.** Councils could do more to involve local communities and businesses in their choice of options. Giving communities more say in their services is an area of growing national interest and the Community Empowerment (Scotland) Act 2015 brings new duties to public bodies. This is an area where councils are developing their practice.

**31.** We saw limited evidence of public opinion shaping options appraisals. The choice of option is treated mainly as a technical issue, but we would expect councils to show how they have considered the views of the public. This could include their expectations over service quality and the standard of facilities. Such dialogue can also make councils aware of options they may not have otherwise considered. [Part 4 \(page 35\)](#) of this report considers this topic further.

**Some benefits may not be unique to the ALEO model itself**

**32.** Some of the benefits associated with ALEOs may not be unique to the ALEO model itself. Councils should explore all options and understand the associated risks and alternatives. Ultimately, good management and staff commitment are key factors for success. [Appendix 3 \(page 41\)](#) outlines some of the benefits associated with ALEOs, along with alternative points to bear in mind. This provides a context for [Part 3 \(page 27\)](#) of this report which examines evidence of what ALEOs are achieving.

# Part 2

## How councils oversee ALEOs



### Key messages

- 1** Oversight, accountability and good management are essential to deliver effective public services however councils choose to deliver them. Councils should continue to apply the principles in our Following the Public Pound Code (FtPP).
- 2** Councils have improved and strengthened their oversight of ALEOs. This includes clear roles, scrutiny that is proportionate to risk, and officers taking a stronger liaison role with ALEOs.
- 3** Councils should put in place more formal processes to demonstrate that their use of an ALEO provides Best Value. They should take steps to be more transparent about their use of ALEOs.
- 4** Councils need to set clearer criteria for councillor or officer involvement with ALEOs. These should consider the associated risks and how conflicts of interest should be dealt with. Alternative arrangements can be made to reduce the risks of conflicts of interest.
- 5** Where councils appoint representatives to ALEO boards, they should foremost consider the skills, background and experience required of the role. Training and development is important both from the perspective of the council and the ALEO.

councils have strengthened their oversight of ALEOs, but they are not without risk

### Councils must apply the Following the Public Pound Code

**33.** Councils are ultimately accountable for how they spend public money, including the services they commission through ALEOs. This means having clear oversight and appropriate governance arrangements in place. The Following the Public Pound Code sets out the principles for how councils should do this ([Exhibit 7, page 18](#)). The Code states that having council representatives on a board as trustees or directors does not in itself achieve effective governance. Regardless of any representation on boards, councils should monitor ALEOs and insist on regular reporting from them.

## Exhibit 7

### Following the Public Pound



## Following the Public Pound principles and ALEOs

The principles of openness, integrity and accountability apply to councils in their decisions on spending public money. These apply equally to funds or other resources which are transferred to ALEOs.

The Code sets out six principles that require councils to:

- have a clear purpose in funding an ALEO
- set out a suitable financial regime
- monitor the ALEO's financial and service performance
- carefully consider representation on the ALEO board
- establish limits to involvement in the ALEO
- maintain audit access to support accountability.

Source: Following the Public Pound Code

**34.** An ALEO board needs to act independently to decide how it meets its objectives including its obligations to the council. For a registered charity this means acting in the interest of the charity and promoting charitable purpose. In practice the FtPP principles require a range of measures to be in place:

- Governance documents setting out the ALEO objectives and powers, along with contractual or service agreements between the ALEO and the council.
- Ongoing performance, financial and contract monitoring; and periodic review of the ALEO's business plans and objectives by the council.
- Assurance from internal audit over the council's governance and control processes for ALEOs. ALEOs may also have their own audit or finance subcommittees.

### **Councils have better oversight of ALEOs, but issues can still occur**

**35.** Councils need to understand how well ALEOs are performing, and be aware of risks and difficulties that may arise. All our sample councils had appropriate governance processes for overseeing ALEOs. More effective practice included scrutiny proportionate to the risks involved, and clear roles and responsibilities for councillor and officer oversight ([Exhibit 8, page 19](#)).



## Exhibit 8

### Improving practice in governance

## Councils have developed governance frameworks to achieve a more proportionate level of scrutiny for ALEOs



### Glasgow City Council's framework for councillor and officer oversight

Glasgow has a diverse portfolio of ALEOs. Its governance framework for ALEOs differentiates between democratic, strategic, and operational scrutiny as follows:

- Political decision-making and scrutiny: councillors oversee ALEOs through the Operational Performance and Delivery Scrutiny Committee and the Finance and Audit Scrutiny Committee.
- Strategic oversight and scrutiny: a Governance Management Group of senior officers meets with ALEO representatives on a six-monthly basis to review and discuss their financial and operational performance, business plans, and issues arising.
- There is regular liaison and monitoring between the council and ALEOs over operational issues: corporate teams within the council help to maintain the relationship between ALEOs and their client departments in the council.



### Aberdeen City Council's ALEOs Assurance Hub

Aberdeen introduced a new ALEOs Assurance Hub in 2017. This draws on expertise from CIPFA and the Good Governance Institute. The Assurance Hub has a clear focus on risk management, financial management and governance.

- The council has split its ALEOs into tiers based on the level of funding they receive and the level of control the council has over them. The Hub assesses the level of oversight required for individual ALEOs and reports to the council's Audit Risk and Scrutiny Committee.
- Service directorates and committees are responsible for monitoring performance and contractual compliance.
- An ALEO Strategic Partnership Group provides advice and support to the council's ALEOs including strategic planning and resource sharing. The group comprises ALEO chief executives, and council finance, legal, and procurement officers.



### North Lanarkshire Council's dedicated ALEOs committee

North Lanarkshire Council introduced a dedicated ALEOs and External Organisations Monitoring Committee in 2016. It meets in public and considers the financial management, performance, risks and governance of ALEOs.

- The frequency of ALEO monitoring reports to the committee is proportionate to risk and ranges from quarterly to annually. More detailed performance information is scrutinised by the relevant council service committee.
- Client officer roles are being reviewed, and a Monitoring Officer Working Group established to bring about consistency of approach across all areas of ALEO service delivery.

Source: Audit Scotland

**36.** Councils must oversee and manage many factors and be aware of the risks associated with ALEOs. Despite evidence of improving governance, we are aware of governance or operational issues that have arisen:

- Glasgow City Council's employability ALEO faced financial pressures in 2015/16 resulting from it having been required to repay European funding. As a result, it reduced its activities significantly and shed 150 posts through voluntary severance. The body has since restructured.
- East Lothian Council and the Lothians Racing Syndicate Ltd (LRS) jointly commissioned an independent governance review to evaluate the structure, composition and constitution of the Musselburgh Joint Racing Committee, and operational matters relating to the conduct of business at the racecourse. This identified options which are being considered by the council in consultation with the LRS.
- The creation of a subsidiary in 2011 by the council's ALEO, North Lanarkshire Leisure, had not been reported to a council committee. Also, the need for, and circumstances surrounding the setting up of, the company was not approved by, or reported to, the ALEO Board. There have since been a number of changes within the ALEO and North Lanarkshire Council has significantly strengthened its approach to the governance of ALEOs.
- In Stirling Council, a tender evaluation carried out in February 2017 following an options appraisal for the provision of sports and leisure services recommended the award of the contract to an external company. However, councillors decided that neither of the two bids submitted as part of the extensive tender process met the best value criteria and, as a result, the contract award was rejected. The council is now pursuing an alternative option involving reconstituting its existing sports and leisure ALEO.

### **Councils must have clear reasons for their appointments to ALEO boards**

**37.** It is up to councils to decide on the most appropriate governance arrangements. They must consider very carefully the question of council representation on the ALEO board. The main consideration is what skills or experience are required of the board and who is best placed to meet these. Where councillors or officers take such positions, they should be clear about the responsibilities and requirements of the role.

**38.** There are risks of conflicts of interest where councillors or council officers take board positions. The Accounts Commission has highlighted that such conflicts can become starker if an ALEO encounters difficulties. The Companies Act and Charities and Trustee Investment (Scotland) Act require board members or trustees to act in the best interests of the company or trust on which they serve, and to put these interests first ([Exhibit 9, page 21](#)). But there may be times where this requirement may conflict with councillor or officer duties in the council. This can be a difficult balance where council representatives may be privy to certain information, but are prohibited from sharing or acting on it because of their role. As a small council with fewer councillors, Stirling Council told us that it can be much more difficult to manage potential conflicts.

## Exhibit 9

### Duties within companies and charities law



#### **Companies Act** requirements for directors include:

- act within powers
- promote the success of the company
- exercise independent judgement
- exercise reasonable care, skill and diligence
- avoid conflicts of interest
- not accept benefits from third parties
- declare any interest in a proposed transaction or arrangement.

#### **Charities and Trustee Investment (Scotland) Act** requirements for trustees include:

- act in a manner consistent with the charity's purpose
- act with the care and diligence expected of someone managing another person's affairs
- put the interest of the charity before those of any person or organisation who appoints trustees where there is a conflict of interest, or withdraw from the decision-making involved.

Source: The Companies Act (2006); Charities and Trustee Investment (Scotland) Act 2005

**39.** The Councillors' Code of Conduct sets out principles that councillors must follow where they take a role on outside bodies including ALEOs.<sup>4</sup> The Standards Commission's Advice Note for Councillors on ALEOs provides supplementary guidance to help clarify this area of the Code. This sets out the practice required of councillors who are also board members or trustees:<sup>5</sup>

- Councillors who are also ALEO board members can participate in council committees, but they must declare interests.
- The Code prohibits councillors from taking 'quasi-judicial' decisions in the council that may affect any ALEO they are involved with, for example planning or licensing decisions.
- It is considered good practice for councillors not to participate in scrutiny or funding decisions within the council that may affect the ALEO they are involved with.

**40.** There is an ongoing debate about the advantages and disadvantages of using councillors as board members. Councillors bring their experience as elected community representatives and their knowledge of the council and its services; however, there are potential conflicts of interest between their roles on the council and the ALEO. [Exhibit 10](#) outlines some of the main advantages and disadvantages identified by our sample group of councils.

## Exhibit 10

### Pros and cons of councillors or officers acting as trustees or directors

#### Potential advantages of council nominees as board directors or trustees



- Can improve the relationship between the ALEO and the council.
- Can bring an insight into the council and its objectives and the broader community.
- Council representatives can gain valuable first-hand experience of service issues and different sectors.

#### Potential disadvantages of council nominees as board directors or trustees



- Can bring additional demands to their already diverse role.
- Representatives may lack the background, skills or understanding required of the role.
- Risk of conflict of interest between their role on the ALEO and their role on the council.
- Negative impact on council decision-making where councillors withdraw from committees owing to conflicts of interest.
- Exposure to legal risks and personal liability.
- Risk to continuity if councillors lose their position if not re-elected.

Source: Audit Scotland

**41.** We found a range of practice for councillors and officers taking trustee and director roles across our sample group:

- Across most of our sample councils, councillors and officers can take board positions on ALEOs. However, it is becoming less common to involve officers, and in Stirling and Edinburgh, for example, council officers no longer take director positions.
- Practice varied in social care ALEOs. Councillors and council officers are appointed as board directors in Glasgow's Cordia; this contrasts with the care ALEOs in Aberdeen City and Scottish Borders where councillors are not appointed as directors. In the Scottish Borders, councillors oversee the care ALEO through a dedicated Strategic Governance Group.
- OSCR recommends that the majority of trustees in a charitable ALEO should be independent of the council; we observed this to be the case across our sample group.

**42.** Officers and councillors holding director positions felt they could balance their dual roles, and saw this as very much part of their job. We are not aware of any significant breaches to the Councillors Code of Conduct regarding councillors' involvement with ALEOs. Our audit work in councils has emphasised the need for clear roles and responsibilities in relation to ALEOs to risk of conflicts of interest arising.

**43.** The City of Edinburgh Council highlighted a previous situation where an officer had been in a difficult position concerning the sale of assets from an ALEO back to the council. As an ALEO director, his aim was to achieve the best price for the company; but as the council's chief financial officer he had a duty to achieve value for money for the council. Council officer posts are no longer nominated as directors of that company.

**44.** We found that few councils have policies or guidelines setting out how councillors or officers should be involved with ALEOs. Stirling Council has guidelines that aim to focus councillors on their strategic role of providing direction, oversight and challenge over ALEOs. The policy restricts councillors from participating as directors on more commercial ALEOs, but allows them to be involved if the ALEO has a clear community benefit purpose that is in line with the council's objectives. [Case study 1](#) illustrates how the council applied these guidelines in the case of a joint venture company.

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## Case study 1



### Board representation on a joint venture (JV)

The council recognised that the board of a property development JV had an imbalance of expertise: it comprised councillors and a council officer, and property professionals from the council's private sector partner. In a governance review, the council replaced the councillors and officer with independent experts with knowledge of the commercial property market. This was to reduce the risk of conflicts of interest and to improve the knowledge and experience of the board for the benefit of both the council and its JV partner.

Source: Audit Scotland

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### Councils should consider other approaches to limit conflicts of interest

**45.** Some councils have chosen not to use council representatives as board members because of the risk of conflicts of interests. Having council nominees on boards was seen to blur the relationship between the council and the ALEO. It also brings personal liabilities to those taking such roles. Councils can achieve a much clearer separation by using secondments to ALEOs.

**46.** Councils need to put safeguards in place where they decide to involve a council representative in a decision-making position on an ALEO. These include procedures for dealing with conflicts of interest, making training and advice available, and personal liability insurance to protect board members in their role. Employment contracts can also be used to specify an officer's responsibilities if a conflict of interest arises, however we did not hear of this being used in practice.

**47.** Council representatives can take a monitoring and liaison role as an alternative to taking a board position. This allows them to oversee and advise the ALEO without taking a decision-making role on the ALEO. Most of our sample group of councils had strengthened the role of such officers to give them greater seniority and influence. Their role involves managing the relationship between the council and the ALEO, and monitoring the performance of the ALEO and its compliance with its contracts or service agreements with the council. Fife Council explained how the expertise and close involvement of its officers helps it to understand local opportunities and encourage the ALEO to improve its performance.

### **Council appointments to ALEOs should be driven by the requirements of the role**

**48.** We found that councillor appointments to ALEO boards tended to reflect the political balance of the council. This differs from the approach taken by ALEOs for their other board members. These appointments tend to be made through an appointments committee based on the skills, experience and other criteria required of the role. Councils should ensure that they consider the skills or background required of the role. More effective practice in this area included The City of Edinburgh Council where officers provide political groups with guidance on making appointments.

### **Councils and ALEOs should provide training and support to board members**

**49.** It is important that board members have the necessary training to perform their role effectively and understand what is required of them. Councillors we spoke to recognise that training is important from both the perspective of the council and the ALEO. All the councils we spoke to provide training, for example as part of the induction for new councillors, and more bespoke training in relation to their roles on ALEOs. In Glasgow, training is mandatory for elected members appointed to ALEO boards. OSCR provides guidance on the role of charity trustees.<sup>6</sup>

**50.** We saw good examples of training for board members, reflecting the growing maturity of councils' experience in this area. Our HCW report on roles and working relationships highlights both training and appropriate behaviours as essential to good governance.<sup>7</sup> It urges councils to provide councillors with training in the essential areas of scrutiny, audit, and financial decision-making. Indeed, some councillors we spoke to felt that in the case of ALEOs, training should also cover company accounts. More effective practice is described in [Exhibit 11 \(page 25\)](#).

### **Councils need to provide a systematic test of Best Value**

**51.** It is possible under certain conditions for councils to procure services directly from a third party such as an ALEO without a competitive public procurement exercise.<sup>8</sup> Generally, this requires the relationship between the council and the ALEO to be the same as that between the council and one of its own directorates. The ALEO must also provide most of its core activities on behalf of the council. Councils must also continue to observe procurement and competition law as part of any changes in their relationship with ALEOs, be it through contract renewal, or changes or diversification in the ALEO's activities.

## Exhibit 11

### Training and development for ALEOs



#### Provided by the council

- ✔ The council specifies advice and any necessary training for all councillors and officers who are decision-makers, advisers or observers of an external body.
- ✔ Training explores conflict scenarios, companies and charities law, and the Councillors' Code of Conduct.
- ✔ Training involves external expertise.
- ✔ All councillors are trained in essential aspects of their role in relation to scrutiny, audit and finance.



#### Provided by the ALEO

- ✔ Induction workshops for all board members.
- ✔ Directors' manual setting out the ALEO's aims, and the activities, responsibilities and duties of directors or trustees.
- ✔ Development programme for board directors including corporate governance standards.
- ✔ Appraising board members, and publishing their attendance record.
- ✔ Specialist training in companies and charities law.

Source: Audit Scotland

**52.** Councils should be able to demonstrate that their contracts or service agreements with an ALEO offer Best Value. Councils tend to do this by assessing the annual performance of the ALEO, along with its annual report and business plan. There is scope for some councils to put stronger arrangements in place for the interim review of contract performance. For example, one council we spoke to had introduced clearer performance objectives and formal review points in its contract with a joint venture ALEO. In another example, a council had revised its service agreement with a leisure trust to set out its social benefit objectives more clearly.

### Councils should take steps to make ALEOs more accountable

**53.** Services provided directly by councils are often seen as more accountable than services contracted with external providers such as ALEOs. Councillors direct and oversee council-provided services through council committees. Where services are delivered by ALEOs this relationship becomes less direct. The council will oversee the contract or service agreement with the ALEO, but will have less day-to-day influence over the service.

**54.** ALEOs bring a different kind of accountability. They are, foremost, accountable to their own boards. These can include wider stakeholders including business leaders, community and service users, and employee and trade union representatives. This can allow for a more 'user-driven' form of governance, as opposed to the more representative role that councillors take on a council committee.

**55.** Some councillors we spoke to felt that the council relationship with ALEOs was different from relationships with a fully outsourced service. As trusted partners they felt they could contact ALEO managers for information, and call ALEO management to committee to present evidence.

**56.** Making information publicly available is another important aspect of accountability. Measures we identified that can improve transparency include the following:

- ALEO websites making annual reports, board minutes, and governance documents publicly available.
- ALEOs proactively publishing as much information as possible, for example covering the categories of information identified in the Model Publication Scheme.<sup>9</sup>
- ALEOs acting in accordance with the Freedom of Information Act that applies to councils, by responding promptly to information requests, providing information where possible and explaining why information cannot be provided.
- ALEOs adopting customer feedback and complaints-handling standards such as the Scottish Public Services Ombudsman (SPSO) guidelines.

**57.** Most of the leisure ALEOs across our sample group gave useful service and pricing information. However, not all included performance or user satisfaction information or minutes of board meetings. This is an area that councils should improve and specify in their service agreements with ALEOs. We found that:

- all the ALEOs included information on pricing and concessions
- all included information on Freedom of Information
- most had clear information on how to make complaints or suggestions
- only around half made board minutes available
- only around half made annual and performance reports available.

**58.** A council's annual accounts are a further source of public information. The governance and financial relationship between a council and its ALEOs can be complex. The Code of Practice on Local Authority Accounting encourages councils to 'tell the story' of their activities and financial performance during the year. This should cover not only the council itself, but also other third parties it is involved with, including ALEOs where they are significant to a council in terms of their risks or their financial implications.

**59.** The extent to which councils provided a clear commentary on their use of ALEOs varied significantly, with some councils providing only limited information. More effective practice is for councils to give a fuller overview of the ALEOs they are involved with. This could include their purpose, the extent of council ownership if any, and the financial contribution to and from the council. Most of the accounts we reviewed did not provide this level of detail. Glasgow and Fife councils had more effective practice and provided a clearer breakdown of their interests with useful supporting commentary.



# Part 3

## What ALEOs are achieving



### Key messages

- 1** ALEOs are diverse in their range and the services they offer. Councils have used ALEOs to sustain existing services and offer additional services through reducing costs and generating income. However, financial and market pressures remain that can impact on their performance.
- 2** ALEOs have reduced the costs of sports and leisure services to councils through taxation benefits, new funding, and increased participation. Social care ALEOs have improved their care standards and reduced the costs of these services to councils. Financial pressures remain and not all social care ALEOs are achieving their financial targets. Performance in other areas such as property development has been more mixed.
- 3** We found many good examples of ALEOs providing innovation and benefit to communities. Councils need to better demonstrate how their use of ALEOs contributes to the council's priorities and improves outcomes for people.

**ALEOs have brought benefits but cost pressures remain**

**60.** The diversity of services provided by ALEOs and their individual circumstances makes it almost impossible to draw clear patterns of performance that apply in all cases. We have examined how ALEOs have contributed to improving services across a sample of ALEO services. This includes sports and leisure services where most councils use ALEOs; and social care, a service that vulnerable people and their families rely on. Our sample also includes examples from more commercial ALEOs.

**61.** We have based our assessment on the following sources of information:

- The Local Government Benchmarking Framework (LGBF) performance information for leisure services that applies across all Scottish councils. We have extracted data specifically for councils that operate sports and leisure ALEOs.
- Financial returns made by ALEOs to OSCR to identify broad sources of income.
- Care Inspectorate assessments to identify the quality of care for care homes, day centres and homecare services in relation to the three social care ALEOs.
- ALEO performance information and examples from across our sample councils. These include areas of service quality, efficiencies and financial performance.

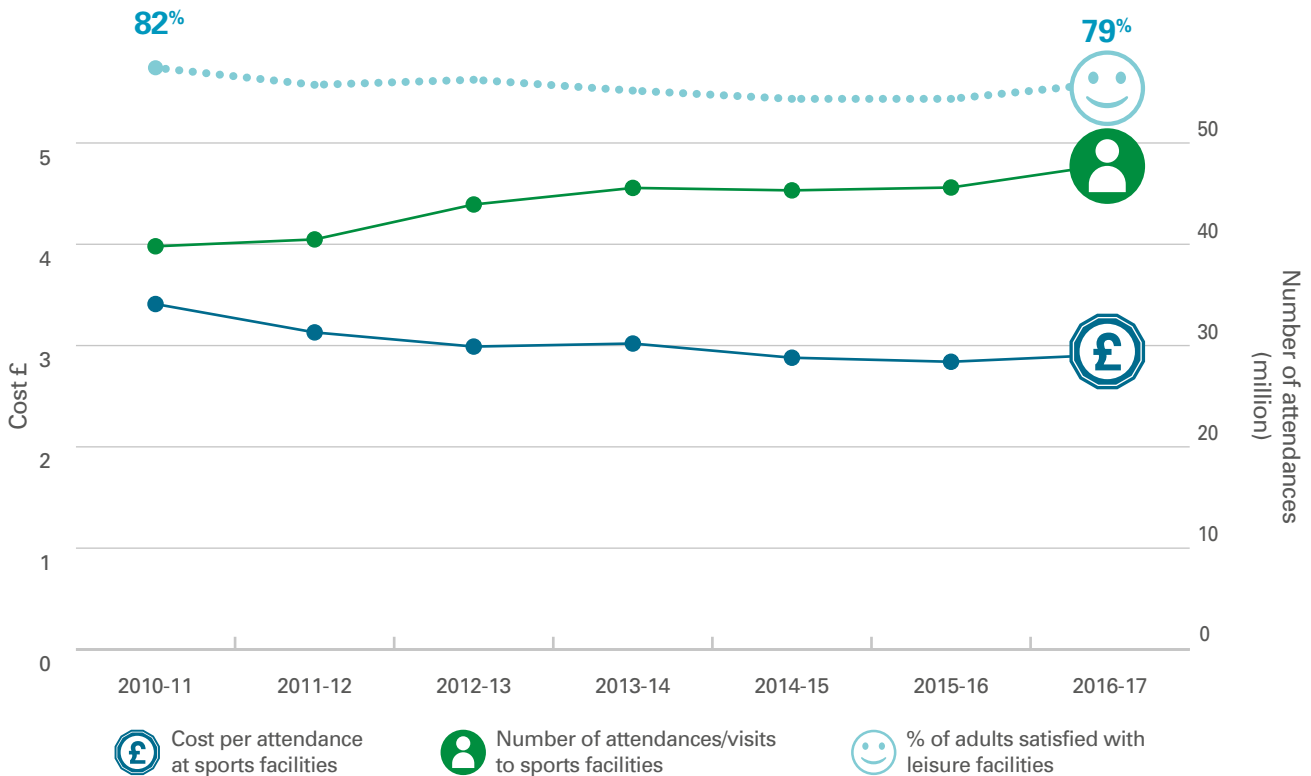
## Sports and leisure ALEOs have increased uptake and reduced costs

**62.** In Scotland over three-quarters of councils provide sports and leisure services through an ALEO. Sports and leisure services aim to encourage sports development, physical activity and wellbeing. These are provided through facilities including sports centres, swimming pools, and outdoor sports facilities. We estimate the total turnover of leisure and culture trusts to be approximately £430 million in 2016/17. Glasgow Life is a joint leisure and culture ALEO and operates on a significantly larger scale than other ALEOS in the sector, with total turnover of around £127 million.

**63. Exhibit 12** shows LGBF indicators for how the 25 ALEOs that provide sports and leisure services across Scotland have performed. This shows that from 2010/11 to 2016/17 the cost per visit to leisure facilities has fallen, while service uptake has increased. Public perceptions of the service show a slight decline:

- Net costs per visit have decreased from £3.41 to £2.91.
- Visits (per year) to sports facilities increased from 39.8 million to 47.9 million, although uptake has declined in recent years in some council areas.
- Satisfaction with sports facilities fell from around 82 per cent to 79 per cent.<sup>10</sup>

### Exhibit 12 The performance of sports and leisure ALEOs



Source: Local Government Benchmarking Framework 2016/17

**64.** This equates to a reduction in net costs of around 15 per cent, and an increase in service uptake by 20 per cent. The trend in these broad indicators was less marked for the seven councils that directly provide sports and leisure services without using ALEOs. Here there has been a reduction in costs of nine per cent, and an increase in uptake of ten per cent; user satisfaction is lower at 66 per cent and has declined by two per cent. These councils tend to be smaller or more rural councils.

### **Financial benefits have been a major reason for establishing leisure ALEOs**

**65.** Financial benefits have been a major reason for setting up charitable leisure ALEOs. This includes both taxation through NDR relief and VAT, and additional income through service uptake and new funding. We estimate that leisure and culture ALEOs generate around £61 million annually through donations, grants, fund-raising, investments, and other commercial activity.<sup>11</sup> This is equivalent to around 14 per cent of their overall income. Below are some examples of how ALEOs have reduced the costs of providing leisure services to councils include:

- The Glasgow City Council's service fee for Glasgow Life at £73 million is equivalent to around 57 per cent of the ALEO income in 2016/17, compared to around 71 per cent of income in 2008 (£69 million service fee).
- Leisure and Culture Dundee has made a cumulative saving of £15 million (2011 to 2017) allowing it to remove a £3.5 million funding gap and invest £1.2 million. Income generated by the ALEO now exceeds the funding paid by the council.
- High Life Highland has realised a saving of £9.1 million in its first five years of operation; with rates and VAT savings making up around 56 per cent of the savings, and the remainder being achieved through income and efficiencies.
- From 2008–16, Fife Council saw a 50 per cent reduction in costs, and a 50 per cent increase in service uptake for sports and leisure. The annual costs to the council fell by over £3 million, from 60 per cent of turnover to only 20 per cent.

**66.** Fife Council's capital investment programme has contributed to its improved performance. The council works in partnership with Fife Sports and Leisure Trust to plan and project manage this programme. This has led to £18 million of investment being targeted across sports centres and swimming pools, including easy-access changing rooms. The programme aims to ensure the investment continues to deliver financial benefits by increasing revenue as well as benefiting communities.

### **Councils need to improve how they measure the outcomes achieved by ALEOs**

**67.** Measuring the impact services have on improving health, wellbeing and other outcomes is an area where the public sector is still developing its practice. It is difficult to identify the contribution of ALEOs to wider outcomes. We have therefore limited our assessment in this area to more qualitative examples of how ALEOs contribute to their social or community benefit aims.

**68.** As charities, ALEOs have a charitable purpose in areas such as participation in sport, health and wellbeing and encouraging volunteering. Most of our sample group of leisure or culture ALEOs were also involved in their local community planning partnership, either through subgroups or as an additional or non-statutory partner. High Life Highland (HLH) has participated as a member of the Highland Community Planning Partnership since 2015, helping to find new opportunities, for example through partnership working with the NHS. We found many good examples of ALEO initiatives to meet their wider social or community benefit aims:

- Edinburgh Leisure worked alongside a GP practice in Leith to set up referrals to a physical activity programme run by the local swimming pool, targeted at men over 50 at risk of heart disease, stroke and diabetes.
- Linking leisure and wellbeing: High Life Highland working in partnership with NHS provides physiotherapy and rehabilitation services from community leisure facilities. HLH has encouraged participation of teenage girls in exercise through its dance programme, training 300 students to lead weekly sessions involving almost 2,600 participants.
- Fife Sports and Leisure Trust introduced summer free swimming and 'Quid a Kid', an initiative which enables juniors to play racket sports for just £1.
- Leisure and Culture Dundee secured private sector sponsorship for their Park Lives outdoor activities initiative.

**69.** Like councils and other providers, ALEOs operate concessionary schemes. These include low-cost leisure access schemes and activities for groups such as children or older people. Some councils saw ALEOs as helping to sustain services, such as affordable swimming for school-age children, that may otherwise not be provided.

**70.** The ALEO model has brought benefits but challenges remain. Financial constraints are impacting on the ability of councils to fund ALEOs. In the culture sector, for example, reduced council funding has led to library closures in some communities. One leisure ALEO from our sample group was also consulting the public over the impact of reduced funding from the council. Other councils indicated that they may need to limit their funding to areas of most need. Factors we have noted that can impact on ALEOs include:

- uncertainty over future taxation and NDR benefits
- impact of reduced funding from councils on the ability of ALEOs to generate income
- need for investment in leisure facilities and their ongoing maintaining costs
- increasing competition for what are limited charitable funding opportunities.

## Social care ALEOs have improved standards of care; cost pressures remain

**71.** The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform. This aims to bring health and social care services closer together, with Integration Joint Boards (IJBs) being introduced to plan and commission services in their areas. Our audit focused on the contribution of the ALEO model itself to social care services. We did not look at the wider partnership context of IJBs. Our performance audit, *Health and social care integration: Part 2*<sup>12</sup> will examine progress in this major reform programme including strategic planning and governance.

**72.** Three councils now deliver adult social care services through an ALEO. Services include older people's care, rehabilitation, and enablement to help people regain abilities they may have lost through poor health or disability:

- **Glasgow:** Cordia LLP, established 2008, about 4,000 full-time equivalent (FTE) staff.
- **Aberdeen:** Bon Accord Care Ltd, (BAC), established 2013, about 800 FTE staff.
- **Scottish Borders:** SB Cares LLP, (SBC), established 2015, about 500 FTE staff.

**73.** Cordia combines facilities management and catering services, along with Cordia Cares, its social care arm. Glasgow City Council has decided to bring the activities provided through Cordia back into the council. Aberdeen City and Scottish Borders councils both operate similar models for their social care ALEOs. These aim to sustain the level and quality of care services service through:

- achieving greater efficiency and flexibility through a more commercial management approach under a specialist board
- generating income through providing additional services.

**74.** The business cases for social care ALEOs identified potential new sources of income including providing care services as part of self-directed support (SDS), offering accredited training, and supplying aids and equipment. SDS allows clients more choice over their care services and providers, including the option to manage their own care budget.

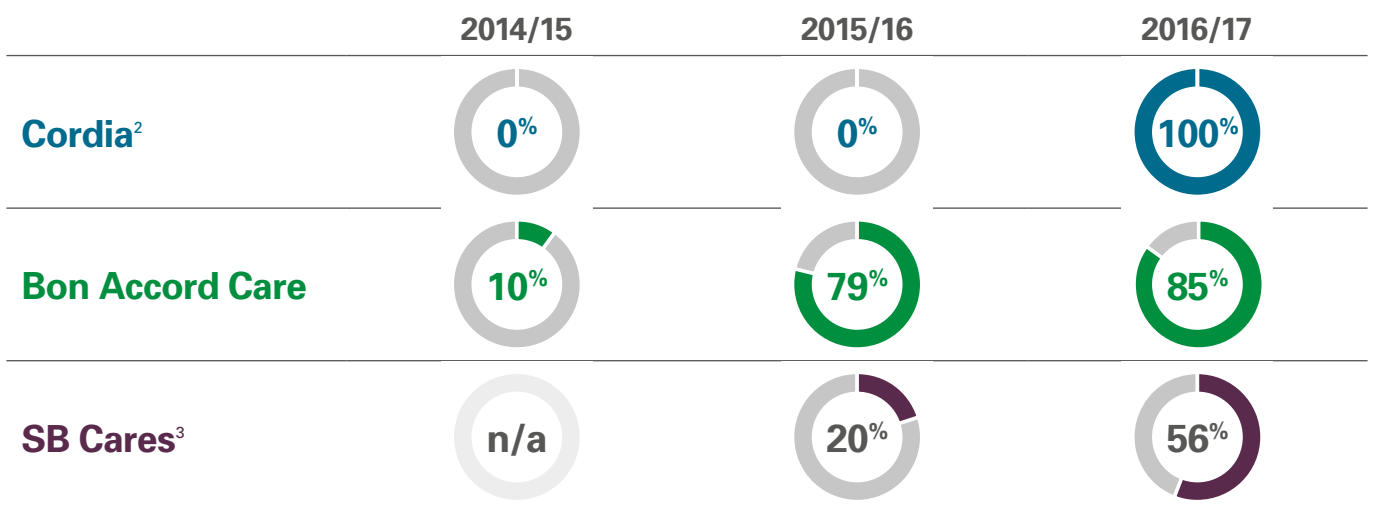
**75.** The councils' contracts with social care ALEOs allow for a financial contribution from the ALEO, with the ALEO setting out to achieve this through efficiencies and income generation. BAC and SBC are performing inline with their anticipated budgets. Cordia has not realised its planned contribution in recent years. This is mainly because savings from the council's transformation programme have taken longer to deliver than anticipated.

**76.** The social care ALEOs have increased income by offering additional services, but this is a small proportion of their total income. Social care ALEOs have not yet realised the anticipated levels of additional income from SDS.

**77.** The social care ALEOs have upheld and improved the quality of the services they provide. **Exhibit 13** gives an overview of Care Inspectorate (CI) grading assessments for services delivered by social care ALEOs in areas including care at home, residential care and day centres.<sup>13</sup> The table summarises overall movements in the proportions of these gradings rated as good or better over the three-year period from 2014/15 to 2016/17. There has been an improving trend across the three social care ALEOs. Within this, the improvement in care at home, and care home services, is consistent with, or better than, the trend across Scotland.

### Exhibit 13

Percentage of ALEO services graded as good or better across all four inspection themes.<sup>1</sup>



Notes:

1. The CI grades registered services on four themes: Care and Support; Environment; Staffing; Management and Leadership.
2. Cordia has multiple services grouped into three area-based inspections.
3. SB Cares had no registered services until 2015/16.

Source: Care Inspectorate Datastore

**78.** The Scottish Health and Care Experience Survey measures user satisfaction for the parent council for the percentage of adults who:

- receive any care or support who rate it as excellent or good.
- are supported at home who agree that their services and support had an impact in improving or maintaining their quality of life.

**79.** The data is currently only available over two years (2014/15 and 2015/16). It shows that satisfaction levels at around 80 per cent are broadly comparable between councils that use care ALEOs and other councils.

**80.** We also found examples of innovative and responsive working practices across the social care ALEOs:

- Cordia worked in partnership with Glasgow City Council's education service to develop a new food policy for Glasgow schools encouraging pupils to avoid local fast food outlets. **Page 394**

- BAC's enablement service has trained 187 care staff to encourage greater independence among older people and reduced demand for planned care.
- SB Cares and BAC each stepped in at short notice to take on clients from independent care providers that had failed to deliver the services required of them by the partnership.
- BAC reduced its agency staff hours by 35 per cent in 2015/16 by operating an internal staff pool arrangement to allow its staff to provide cover at short notice.

**81.** Councils we spoke to said they see a role for social care ALEOs to help regulate a market where low profit margins can impact on the service and its staff. They saw a role for ALEOs to stimulate the market to help meet future demands. By offering accredited training ALEOs were also seen to help uphold service quality and develop employees.

**82.** The ALEO operating model aims to use the workforce more flexibly to develop the services they offer. This can lead to employee terms and conditions being negotiated that differ from those of the council. We found that ALEOs do put assurances in place, for example over payment of the living wage, adopting council terms and conditions and allowing employees to access local government pension schemes.

**83.** It is important, however, that councils continue to oversee staffing issues, including how ALEOs comply with equal opportunities and good employment practice. They should also understand how future funding pressures may impact on the workforce. Even where services are provided through an ALEO, the council can be ultimately accountable for the treatment of staff. For example, it was ruled by a Scottish court that the employees of Cordia could compare their pay packages with employees of Glasgow City Council for the purposes of equal pay claims.

**84.** Healthcare Improvement Scotland (HIS) and The Care Inspectorate (CI) carry out joint inspections across Scottish local authorities of older people's health and social care services. Some recent reports have highlighted concerns over service quality, leadership and governance as some health and social care partnerships adapt to the ongoing changes in how health and social care is provided.

**85.** The role of social care ALEOs in the context of integrated care services is continuing to evolve. Health and social care partnerships, along with their service providers, must continue to adapt and innovate. And, as we said in our report on social work services, financial and demand pressures remain a major issue.<sup>14</sup>

### **Other more commercial ALEO activities**

**86.** It is difficult to comment generally on the effectiveness of the diverse range of commercial activities that ALEOs provide. We have seen both successes and areas that have not met their objectives across our sample.

**87.** Councils have used more commercial arrangements, including ALEOs and joint ventures for property development and buildings maintenance activities. The downturn in the commercial property market around 2012 has reduced opportunities for property development activity. Councils across our sample group have responded to these market pressures in different ways.

**88.** Stirling Council is reviewing its current joint venture ALEO to bring some development sites back within the council's control and align them more closely with its City Regions Deal programme. The ALEO will focus on other more commercial development opportunities. The City of Edinburgh Council has decided to wind up Edinburgh Development Initiative, its property development ALEO, and bring its activities in-house to be closer to the council's planning and development functions.

**89.** Examples of the activities and contribution from what is a diverse range of other commercial ALEOs are set out below. These include both financial benefits and contributions towards council and partner priorities:

- Glasgow City Building took on 70 new apprentices in 2016/17 and employs 324 apprentices in total with over 90 per cent completing their apprenticeship. Almost three-quarters of their expenditure goes to Glasgow-based small to medium enterprises. Around 100 school pupils benefited from work experience opportunities.
- Energy and waste ALEOs in Aberdeen and Fife have reduced fuel poverty for council housing residents, with Fife Resource Solutions ALEO generating renewable power equivalent to the demands of 1,250 households.

**90.** Business planning is an important feature of ALEOs for them to meet their objectives and contractual obligations. ALEOs need to be commercially viable in the longer term. As an example of longer-term planning, Fife Council and its waste ALEO are working together to deliver a long-term residual waste treatment solution for post-2020. This is a critical project for both parties since landfilling municipal solid waste will be prohibited from 1 January 2021.



# Part 4

## The future direction of ALEOs



### Key messages

- 1** Councils value ALEOs as an option to help them to sustain services and innovate. Their use of ALEOs continues to change and evolve: ALEOs are being merged, disbanded, or created in new areas such as affordable energy. There is only limited use of ALEOs to deliver shared services between councils.
- 2** Some councils are exploring alternatives to ALEOs following the Scottish Government's announcement that it would limit non-domestic rates relief for any new council charitable ALEOs. In doing so, councils should work closely with local communities and businesses.
- 3** Councils need to ensure ALEOs are sustainable in the longer term. At a time of financial constraints, market uncertainty and policy reform it is even more important that councils have clear reasons for establishing new ALEOs. They should continue to review how existing ALEOs are performing and how they fit with council and communities' priorities.

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**councils  
must keep  
ALEOs under  
review and  
consider  
alternatives**

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### ALEOs remain an important option for councils

**91.** Councils see arm's-length bodies as an important option that gives them room to manoeuvre in what are challenging times for local government. ALEOs can help to sustain services and bring innovation, but financial and demand pressures remain.

**92.** However, ALEOs are falling out of favour with some councils. Glasgow City Council has decided to bring both Cordia and its community safety ALEO back in-house. This has resulted from the council's ongoing transformation programme across all activities, and its response to wider legislative changes in community planning, community empowerment, and the integration of health and social care.

### Councils are exploring new ways to realise the benefits of ALEOs


**93.** Any decision to continue or discontinue with an ALEO must be objective and consistent with the requirements of Best Value. It should focus on outcomes not the method of delivering the service. We have emphasised that good management is a key factor for success, whatever way services are delivered.

**94.** The context within which any ALEO operates can and will change with time. The Barclay Review of non-domestic rates is already changing how councils think about different options. Aberdeenshire Council has found that its grant funding

would be reduced to offset NDR relief awarded, and so its proposal to create a culture and leisure ALEO is no longer viable. It is now looking at other ways to realise some of the benefits of the ALEO model to bring:

- closer involvement from businesses and communities
- innovation and faster decision-making to realise commercial or service opportunities
- expertise in service-specific areas such as marketing.

**95.** Possible alternatives include enhancing existing council services by creating a separate business unit, or alternatively using a different form of social enterprise to generate and reinvest income.

**96.** This example highlights that councils need to continue to work closely with businesses and local communities as they develop options. [Community Empowerment \(Scotland\) Act 2015](#)  brings a much stronger impetus for communities to play a stronger part in delivering services. Indeed, councils' experience with ALEOs brings lessons that could be applied to organisations that are more closely linked to communities, for example to:

- include community, business and service user representatives on boards
- protect assets by keeping them within public ownership
- allow limited liability protection for representatives taking director roles.

**97.** We found that some more recent options appraisals have considered community enterprises. We also saw examples where councils are involving communities more closely. Fife Council purchased a disused military site and leased it at nominal cost to a community organisation for use as a football venue. The arrangement enables community activity to take place and is self-sufficient with no revenue cost to the council. The council has also used planning contributions paid by developers to build a community sports hub. In another example, High Life Highland ALEO took a positive role in supporting community-run organisations that were facing financial difficulties.

**98.** Councils have also used the ALEO model to innovate and offer new services. As an example, Aberdeen City Council's Aberdeen Heat & Power ALEO has provided district heating schemes since 2002. The council is considering creating a new Energy Services Company (ESCO) to provide a wider range of energy services across Aberdeen as a whole.<sup>15</sup>

### **There is limited use of ALEOs to achieve shared benefits between councils**

**99.** Councils have made limited progress in working together to provide services jointly, and we saw limited evidence of ALEOs being used in this way. Lothian Buses is the most significant example we identified ([Case study 2, page 37](#)). Others include: Dundee Energy Recycling Limited which provides service on behalf of both Dundee and Angus councils; Cordia's social care equipment service trades with neighbouring councils; and Stirling and Falkirk jointly own an ALEO that provides Geographical Information Services (GIS).

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## Case study 2

### Lothian Buses Limited



Lothian Buses Limited is the largest municipal bus company in the UK. It carries about 120 million passengers per year, and contributes to wider transport objectives to deliver a healthy, inclusive, safe transport system.

It is owned 91 per cent by City of Edinburgh Council; and East Lothian, Mid Lothian and West Lothian councils own the remainder. Transport for Edinburgh is the holding company for Lothian Buses Limited and Edinburgh Trams Limited.

The company operates in the main a low fare, high passenger volume inclusive fares policy with a single flat fare across much of the network. As in the rest of Scotland, senior citizens travel free through a concessionary policy operated and funded by the Scottish Government.

Lothian Buses operates about 700 buses and has a vehicle replacement programme that procures vehicles that minimise emissions including hybrid and all electric vehicles. All buses are low floor and wheel chair accessible.

The company is profitable and makes a dividend payment to its constituent councils. For Edinburgh, the principle shareholder, annual dividends have risen from around £2 million in 2010 to over £6 million in 2017. The council has no restrictions on its use of the dividends; they are currently being used in part to fund the infrastructure costs of the Edinburgh Trams Project.

Source: Audit Scotland

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### Councils will need to consider the benefits and risks as ALEOs evolve

**100.** Financial constraints may reduce the funding councils provide to ALEOs. ALEO representatives have argued that funding cuts can be double edged as they reduce their ability to generate income and achieve the benefits that setting up an ALEO was meant to make possible.

**101.** We have seen examples of ALEOs merging to bring related services together and save costs. Mergers between leisure and culture ALEOs are an example. As ALEOs evolve and adapt, councils will need to carefully consider their viability including their ability to operate more independently. There is also a risk that 'super-ALEOs' become so large they lose the focus and flexibility that is seen to be one of their success factors. It is important that councils keep ALEOs under review and consider alternatives where they no longer meet their intended objectives.

# Endnotes



- 1 [Code of guidance on funding external bodies and following the public pound](#) , Accounts Commission and Convention of Scottish Local Authorities (CoSLA), 1996. In 2005, the Code was given statutory backing in the form of a Ministerial Direction under s51(1) and (2) of the Local Government (Scotland) Act 2003 which required every local authority to comply with the FtPP Code when entering into any arrangement or agreement with a body corporate or implementing such an arrangement.
- 2 OSCR's 2015 report *Arm's-Length External Organisations* lists the charitable ALEOs identified at that time.
- 3 The LGiSA 2003, and the provisions around Best Value, Community Planning, and the power to advance wellbeing.
- 4 *The Councillors' Code of Conduct*, Scottish Government, 2010. The Standards Commission publishes guidance for councillors on how to interpret the provisions within the Code of Conduct.
- 5 *Advice for Councillors on Arm's-Length External Organisations*, The Standards Commission, September 2016.
- 6 [www.oscr.org.uk/guidance-and-forms/guidance-and-good-practice-for-charity-trustees](http://www.oscr.org.uk/guidance-and-forms/guidance-and-good-practice-for-charity-trustees) 
- 7 [How councils work: Roles and working relationships in councils: are you still getting it right?](#) , Accounts Commission, November 2016.
- 8 Under what is known as the Teckal Exemption, codified in regulation 12 of the Public Contracts Regulations (PCR) 2015.
- 9 *Model Publication Scheme*, produced and approved by the Scottish Information Commissioner on 31 May 2017.
- 10 Scottish Household Survey data.
- 11 Financial returns submitted by charitable ALEOs to OSCR.
- 12 *Health and social care integration: Part 2*. To be published autumn 2018 on behalf of the Auditor General and the Accounts Commission.
- 13 Care Inspectorate (CI) grading assessments for registered services: care homes; support services; and housing support services (from The Care Inspectorate Datastore). The CI grades registered services on four themes: Care and Support; Environment; Staffing; Management and Leadership.
- 14 [Social work in Scotland](#) , Accounts Commission, September 2016.
- 15 The Scottish Government Scottish Futures Trust identifies Energy Services Companies (ESCOs) as a model for district heating schemes and other initiatives.

# Appendix 1

## Audit approach



Our audit work included a sample group of nine councils that make significant use of ALEOs, covering both urban and rural areas. We included the three councils that currently operate social care ALEOs.

### Sample councils and ALEOs of interest

<p><b>Aberdeen</b></p> <ul style="list-style-type: none"> <li>• Bon Accord, delivers social care</li> <li>• Aberdeen Heat &amp; Power</li> </ul>	<p><b>The City of Edinburgh Council</b></p> <ul style="list-style-type: none"> <li>• Edinburgh Leisure</li> <li>• CEC Holdings, a range of property companies</li> </ul>	<p><b>Dundee City Council</b></p> <ul style="list-style-type: none"> <li>• Leisure and Culture Dundee</li> <li>• Dundee Energy Recycling Ltd</li> </ul>
<p><b>Fife Council</b></p> <ul style="list-style-type: none"> <li>• Fife Sports &amp; Leisure Trust</li> <li>• Fife Resource Solutions (waste management)</li> <li>• Fife Cultural Trust</li> </ul>	<p><b>Glasgow City Council</b></p> <ul style="list-style-type: none"> <li>• Cordia (social care)</li> <li>• Glasgow Life (leisure and culture)</li> <li>• Jobs and Business Glasgow</li> <li>• City Building</li> </ul>	<p><b>The Highland Council</b></p> <ul style="list-style-type: none"> <li>• High Life Highland (leisure and culture)</li> <li>• Beinn Tharsuinn Windfarm Community Limited</li> </ul>
<p><b>North Lanarkshire Council</b></p> <ul style="list-style-type: none"> <li>• Culture North Lanarkshire</li> <li>• North Lanarkshire Leisure Ltd</li> <li>• Mears Scotland LLP (property)</li> </ul>	<p><b>Scottish Borders Council</b></p> <ul style="list-style-type: none"> <li>• SB Cares</li> <li>• Borders Sport and Leisure Trust</li> </ul>	<p><b>Stirling Council</b></p> <ul style="list-style-type: none"> <li>• Active Stirling Ltd (sports and leisure)</li> <li>• Stirling Development Agency Ltd</li> </ul>

The audit work comprised document review, research and interviews with representatives from the sample group. These included officers, ALEO representatives and focus groups with elected members. Much of our on-site and research work was undertaken in late 2017.

We looked at a cross-section of ALEOs from this sample group. We did not look at:

- housing associations
- public-private partnerships, private finance initiatives or other financial partnerships
- councils' funding of the numerous smaller-scale activities delivered through the third sector and other external parties
- trading operations within councils or other partnership arrangements.

# Appendix 2

## The common forms of ALEO



### Key features



#### Limited company

Can be a company limited by shares (CLS) or guarantee (CLG). The 'articles of association' set out the rules for decisions, ownership and control between the company and its 'members' who formed the company (typically the council).



#### Limited Liability Partnerships (LLP)

As with a company, it is a separate legal identity that offers limited liability to its members. Governed by a partnership agreement, it offers greater flexibility than a company over internal arrangements, eg for taking decisions and the treatment of profits.



#### Scottish Charitable Incorporated Organisation (SCIO)

A bespoke legal form for registered Scottish charities that has been available since 2011. SCIOs need only register with the Office of the Scottish Charity Regulator (OSCR). Limited companies can also be charities but must register with both OSCR and Companies House.



#### Community Interest Company (CIC)

A form of company (limited either by shares or by guarantee) created as a 'social enterprise' to use its profits and assets to benefit the community.

Related forms are community benefit societies (CBS) and cooperative societies that serve the interests of their members.



#### Joint Venture (JV)

A general term for a commercial venture between partners, typically the council and the private sector. Can take different forms, eg CLS, LLP. Public-private partnerships, and private finance initiatives are also forms of JV partnerships.

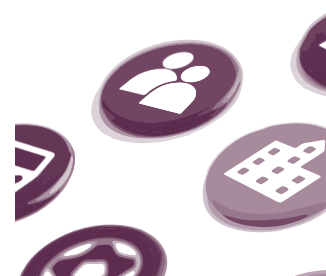


#### Trust

A body governed by 'trustees' through a trust deed. Unlike companies, they are not registered with a regulatory body and do not offer limited liability.

# Appendix 3

## Factors for councils to consider



### Business case assumption

### Factors for councils to consider

**ALEOs bring financial benefits through tax advantages, commercial trading and new funding opportunities**



ALEOs bring financial benefits through NDR relief, new funding and wider commercial trading.

Charitable status encourages donations and volunteering.

The ALEO model safeguards against contract over-pricing as any surpluses can be retained in the public sector.

#### However, points to bear in mind:

There are uncertainties about whether new sources of income will continue over the longer term. For example:

- Taxation benefits, eg NDR and VAT are subject to change.
- Future income is affected by market forces.
- Grants and new funding tend to be one-off, time limited or project specific; and there is increasing competition for them.

**ALEOs bring strong identity, focus and responsiveness**



Direction through an ALEO board can be more immediate and responsive than through a larger council body that has competing demands for attention. An ALEO's defined purpose, separate identity, and contractual obligations give a clear focus on performance. ALEO boards bring greater diversity and specialist expertise; ALEOs can compete to attract workforce talent.

#### However, points to bear in mind:

Councils can achieve similar benefits when ALEOs are not involved:

- Councils can create a service identity and focus, for example through setting up separate business units with a distinct brand.
- Councils already attract external expertise, eg through partnership working, and joint boards or committees.
- Outsourcing can also bring expertise and specialisms to the benefit of the service.

**ALEOs can bring workforce flexibility and efficiencies**




ALEOs have brought new and improved practice in areas of workforce deployment. They have negotiated more flexible employment terms, for example to extend opening hours; and make use of casual staff and volunteers.

#### However, points to bear in mind:

- The best performing councils also demonstrate good workforce management and practice. These features are not unique to ALEOs.
- Planned changes in an ALEO may be limited by expectations over workforce terms and conditions.
- Financial pressures in an ALEO may impact on its ability to uphold terms and conditions including access to pensions.
- If an ALEO is brought back into the council any differences in terms will need to be harmonised.

# Councils' use of arm's-length organisations

This report is available in PDF and RTF formats, along with a podcast summary at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

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## **PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**26 June 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of the report is to provide an update to Members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during previous years.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.
- 1.5 Further details on those Internal Audit recommendations that are either Overdue or due by end June 2018 are shown in Appendix 1.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Scrutiny Committee:-**
  - (a) **Acknowledges the progress made by Management in implementing Internal Audit recommendations; and**
  - (b) **Considers whether it is satisfied with the progress or whether any further action is required.**

### 3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana (previously Covalent), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, to link with relevant risks and to evidence improvement.
- 3.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. A summary of the status of recommendations was presented within the Internal Audit Annual Assurance Report 2017/18 presented to the Audit and Scrutiny Committee on 14 May 2018.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Scrutiny Committee. There were occasions when recommendations were superseded and therefore no longer relevant when alternative solutions were required to manage the identified risks, or it was necessary to grant extra time to complete recommendations.
- 3.6 The following table highlights the current status (at 8 June 2018) with regards to Internal Audit recommendations arising from previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2017/18	42	2	32	8
2016/17	10	8	0	2
2015/16	21	21	0	0
2014/15	34	30	4	0

Further details on those Internal Audit recommendations that are either Overdue or due by end June 2018 are shown in Appendix 1.

### 4 IMPLICATIONS

#### 4.1 Financial

It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit through improved internal controls and governance arrangements.

## 4.2 Risk and Mitigations

- (a) Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- (b) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.

## 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

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

## 4.6 Rural Proofing

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

## 4.7 Changes to Scheme of Administration or Scheme of Delegation

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

## 5 CONSULTATION

- 5.1 The Corporate Management Team has been consulted on this report and appendix and any comments received have been taken into account.
- 5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and the Corporate Risk Officer have been consulted on this report and appendix and any comments received have been incorporated.

### Approved by

**Jill Stacey**

**Chief Officer Audit & Risk**

**Signature .....**

### Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
Sue Holmes	Principal Internal Auditor Tel: 01835 825556

**Background Papers:** Appropriate Internal Audit files, and Pentana system









**Previous Minute Reference:** Audit and Scrutiny Committee 13 November 2017

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**APPENDIX 1**

Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	Update 15.6.18
<b>203/007 Roads Management (Final Report Issued 16 September 2014)</b>									
<b>AUDIT. 002</b>	(2014 IA 203-007 Rec 2) Road Maintenance Manual should be developed to enable consistency in approach, methods and records. All relevant staff should have access to the manual and training in its application provided as necessary.	2	▲ Check Progress	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	31/03/15	30/06/18	 Chief Officer Roads	 Infrastructure Manager	60% complete Roads re-structure ongoing. Due date extension requested to 31.10.18
<b>214/005 Flood Risk and Coastal Management (Final Report Issued 10 December 2014)</b>									
<b>AUDIT. 004</b>	(2014 IA 214-005) Rec 5.1. The Authority should develop its own Shoreline Management Plan which covers the whole of the Berwickshire Coast.	3	▲ Check Progress	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	31/03/17	30/06/18	 Infrastructure Manager	 Asset Manager	45% complete Due to re-prioritisation and budget allocations within the service a different procurement approach is required. It is envisaged to have a competent consultant commissioned by the end of the financial year. Due date extension requested to 31.3.19
<b>238/001 ICT Change Programme (Final Report Issued 16 September 2016)</b>									
<b>AUDIT. 013</b>	(2016 IA 238-001 Rec 4.1) Establish a formal Corporate Support Services Forum to provide expert advice for client relationship management and the CGI contract and to support SBC IT in its contract monitoring responsibilities.	3	● Overdue	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	30/06/17	31/03/18	 Chief Financial Officer	 Interim Head of IT	100% complete The Corporate Support Services Forum (The IT Relationship Management Forum) has been set up by Interim Head of IT with its first meeting held on 6 June 2018. This wider multi-disciplinary team will help in contract management and review assurance and monitoring arrangements.
<b>AUDIT. 014</b>	(2016 IA 238-001 Rec 4.2) SBC IT review the contract with CGI and devise a Compliance Plan within the Contract Management Framework to identify	3	● Overdue	<div style="width: 75%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 75%	30/06/17	31/03/18	 Chief Financial Officer	 Interim Head of IT	75% complete Monitoring is ongoing under the usual processes so impact is not significant. Due date extension requested

exactly what contract monitoring will be done against each element.













to 30.9.18 to devise Compliance Plan.

Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	Update 15.6.18
<b>023/001 Corporate and Social Work Complaints (Final Report Issued 19 June 2017)</b>									
<b>AUDIT. 018</b>	(2017 IA 023-001 Rec 5.1) Training arrangements for staff new to complaints handling and for highlighting changes to procedure to existing staff should be revised.	2	 Overdue	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 Customer Advice and Support Manager	 Customer Services Development Officer	No further progress has been made due to staff leaving and staff reallocation to other services. CASS will discuss with relevant services how to progress this and associated work packages. A review of CHP as a key part of the new Draft Customer Strategy has also been identified. Due date extension requested to 31.12.18
<b>AUDIT. 019</b>	(2017 IA 023-001 Rec 5.2) Processes for validating service quality control which is proportionate to the relatively low number of complaints should be put in place.	2	 Overdue	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/09/17	31/03/18	 Customer Advice and Support Manager	 Customer Services Development Officer	No further progress has been made due to staff leaving and staff reallocation to other services. CASS will discuss with relevant services how to progress this and associated work packages. Due date extension requested to 31.12.18
<b>AUDIT. 020</b>	(2017 IA 023-001 Rec 5.3) Reporting of complaints should be expanded to include analysis of the root cause of complaints and the service areas involved. Routine reporting should be developed to manage ongoing complaints.	2	 Overdue	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 Customer Advice and Support Manager	 Customer Services Development Officer	No further progress has been made due to staff leaving and staff reallocation to other services. CASS will discuss with relevant services how to progress this and associated work packages. Monthly commentary is provided by CASS through Pentana, but this is headline numbers not root cause which should be reviewed by Service Managers. Due date extension requested to 31.12.18
<b>AUDIT. 021</b>	(2017 IA 023-001 Rec 5.4) Lessons learned from upheld complaints should be consistently & logically recorded in CRM together with action taken to provide increased opportunities for learning from complaints and avoid similar complaints.	2	 Overdue	<div style="width: 15%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 15%	30/09/17	31/03/18	 Customer Advice and Support Manager	 Customer Services Development Officer	Functionality exists in CRM to record the lessons learned. However, consistency is still an issue within Services. CASS will discuss with relevant Services to develop improvements in recording lessons learned. Due date extension requested to 31.12.18




Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	
<b>010/014 Corporate Transformation Programme (Final Report Issued 20 June 2017)</b>									
<b>AUDIT. 022</b>	(2017 IA 010-014 Rec 5.1) Corporate Transformation Monitoring Reports (including Annual Report) should include cumulative investment and savings, covering several years, for individual programmes and projects, to enable benefits realisation monitoring and to provide Return on Investment (ROI) info.	3	▲ Check Progress	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 50%	31/12/17	30/06/18	👤 Chief Officer HR	👤 Programme Managers	The re-framing of the Corporate Transformation Programme into 5 key themes will facilitate full implementation of this action. Reports will be developed over time to include whole of project costs for specific projects. Due date extension requested to 30.9.18
<b>AUDIT. 023</b>	(2017 IA 010-014 Rec 5.2) Management should ensure that Corporate Transformation business cases identify the benefits to be realised (both financial and non-financial) including initial and ongoing investment and savings forecast	3	▲ Check Progress	<div style="width: 75%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 75%	31/12/17	30/06/18	👤 Chief Officer HR	👤 Programme Managers	The re-framing of the Corporate Transformation Programme into 5 key themes will facilitate full implementation of this action. Due date extension requested to 30.9.18
<b>165/001 C&amp;YP School Excursions (Final Report Issued 6 September 2017)</b>									
<b>AUDIT 032</b> 808 411	(2017 IA 165-001 Rec 5.1) 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.	3	▲ Check Progress	<div style="width: 33%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 33%	30/06/18	30/06/18	👤 Chief Officer Education	👤 Senior Lead Officer, E&LL	50% complete Management confirm that they have evaluated Evolve software and intend to implement it. Work on when implementation will occur and the training required is planned for the summer 2018 which will include briefing all schools about the new system, excursions policy up-date, disclosures, etc for August 2018. Due date extension requested for 30.9.18
<b>AUDIT 033</b>	(2017 IA 165-001 Rec 5.2) 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.	3	▲ Check Progress	<div style="width: 0%;"><div style="background-color: #4f81bd; height: 10px;"></div></div> 0%	30/06/18	30/06/18	👤 Chief Officer Education	👤 Senior Lead Officer, E&LL	10% complete Management confirm that they have evaluated Evolve software and intend to implement it. Work on when implementation will occur and the training required is planned for the summer 2018 which will include briefing all schools about the new system, excursions policy up-date, disclosures, etc for August 2018. Due date extension requested for 30.9.18

Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	Update 15.6.18
<b>AUDIT 034</b>	(2017 IA 165-001 Rec 5.3) 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.	2	▲ Check Progress	<input type="text" value="0%"/>	30/06/18	30/06/18	👤 Chief Officer Education	👤 Senior Lead Officer, E&LL	10% complete Management confirm that they have evaluated Evolve software and intend to implement it. Work on when implementation will occur and the training required is planned for the summer 2018 which will include briefing all schools about the new system, excursions policy up-date, disclosures, etc for August 2018. Due date extension requested for 30.9.18
<b>AUDIT 035</b>	(2017 IA 165-001 Rec 5.4) 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.	3	▲ Check Progress	<input type="text" value="0%"/>	30/06/18	30/06/18	👤 Chief Officer Education	👤 Senior Lead Officer, E&LL	90% complete Management confirm that they have evaluated Evolve software and intend to implement it. Work on when implementation will occur and the training required is planned for the summer 2018 which will include briefing all schools about the new system, excursions policy up-date, disclosures, etc. for August 2018. Due date extension requested for 30.9.18
<b>204/004 Fleet Management (Final Report Issued 15 September 2017)</b>									
<b>AUDIT. 036</b>	(2017 IA 204-004 Rec 5.1) 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.	2	● Overdue	<input type="text" value="25%"/>	15/12/17	30/04/18	👤 Chief Officer Roads	👤 Finance Business Partners	75% complete. Draft Overall Fleet Strategy to be prepared by end June 2018. Flowchart for Fleet Purchase of Vehicles and Business Case for Asset Purchases are work in progress. Due date extension requested to 30.9.18
<b>AUDIT. 037</b>	(2017 IA 204-004 Rec 5.2) 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.	2	▲ Check Progress	<input type="text" value="50%"/>	15/12/17	30/06/18	👤 Chief Officer Roads	👤 Fleet Manager and Procurement & Payments Manager	100% complete. The vehicle replacement programme is prioritised based upon a rolling evaluation programme and service needs within the financial parameters of available capital and revenue budgets. The whole life costs are part of the replacement evaluation.






Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	Update 15.6.18
<b>AUDIT. 038</b>	(2017 IA 204-004 Rec 5.3) 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.	2	 Overdue	<input type="text" value="25%"/>	31/03/18	31/03/18	 Chief Officer Roads	 Fleet Manager and HR Business Partner	90% complete Proposal to go to CMT regarding workforce plan. Due date extension requested to 31.7.18
<b>AUDIT. 039</b>	(2017 IA 204-004 Rec 5.4) For repairs above an agreed value Service Users should receive a full cost breakdown from Fleet Management which includes a reasonable estimate of what the cost would have been had the repair been undertaken by the main dealer.	3	 Overdue	<input type="text" value="0%"/>	31/03/18	31/03/18	 Chief Officer Roads	 Fleet Manager	100% complete. Service users receive a full cost breakdown above the agreed departmental level for in-house repairs by Fleet Management. Any repairs undertaken by a third party are estimated and then authorised by the user department. It is not feasible for Fleet Management to obtain comparable quotes against in-house work.
<b>151/001 Industrial and Business Premises (Final Report Issued 5 January 2018)</b>									
<b>AUDIT. 041</b>	(2017 IA 151-001 Rec 5.1) When the Economic Strategy is refreshed: clearer linkages between the development of the industrial and business property estate and the requirements of the Economic Strategy should be established; the approach to increasing the supply of immediately available land and business premises should be set out; and importance of and approach to securing external funding should be articulated.	3	 Check Progress	<input type="text" value="0%"/>	30/06/18	30/06/18	 Executive Director	 Chief Officer Economic Development	15% complete Work to refresh the Scottish Borders Economic Strategy is underway. The process has been delayed in order to redirect staff resources to complete the Outline Business Case for the Borders Innovation Park to support the City Region Deal. The refreshed Economic Strategy, including relevant industrial and business property actions, is expected to be completed in Autumn 2018. Due date extension requested to 31.10.18
<b>002/009 Contract Management (Final Report Issued 8 January 2018)</b>									
<b>AUDIT. 043</b>	(2017 IA 002-009 Rec 5.2) Contract Monitoring arrangements for LIVE Borders should be enhanced to comply with best practice guidance including the provision of assurance on managing risks. Furthermore it should be made clear in the Scheme of Administration whether	2	 Check Progress	<input type="text" value="0%"/>	30/06/18	30/06/18	 Executive Director	 Executive Director	An officer development group met on the 5 <sup>th</sup> April to progress this. Due date extension requested to 31.12.18  Refer to Audit Committee action tracker re MCGG's remit.

the Major Contracts Governance Group's remit will include oversight, scrutiny and challenge of LIVE Borders.

Code	Title	Priority	Status 8.6.18	Progress 8.6.18	Original Due Date	Due Date	Managed By	Assigned To	Update 15.6.18
<b>AUDIT. 044</b>	(2017 IA 002-009 Rec 5.3) Contract Monitoring arrangements for SB Cares should be enhanced to comply with best practice guidance. As this contract is large and high risk, it is likely that a multi-disciplinary team will be required to manage the contract, with members from Adult Social Care, Legal, Health and Safety, Finance, Information Governance amongst others.	2	 Check Progress	<input type="text" value="0%"/>	30/06/18	30/06/18	 Chief Social Work Officer	 Chief Social Work Officer	Routine meetings are held and minuted, however, further work in this area is required. A Contract Management Working Group has been established to develop the principles and framework for contract monitoring. Due date extension requested to 31.12.18

**238/003 ICT Contract Management (Final Report Issued 12 March 2018)**

<b>AUDIT. 047</b> Page 414	(2017 IA 238-003 Rec 5.1) Management should consider stating the ICT Contract with CGI explicitly within the Scheme of Administration under the remit of the Major Contracts Governance Group to ensure transparency of ICT Client reporting and ICT Contract Management to elected members.	2	 Overdue	<input type="text" value="0%"/>	31/03/18	31/03/18	 Chief Financial Officer	 Chief Financial Officer	Refer to Audit Committee action tracker re MCGG's remit.
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**AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT  
2017/18**
**Report by Chief Officer Audit & Risk**


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**AUDIT AND SCRUTINY COMMITTEE**
**26 June 2018**


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**1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide members with the Audit and Scrutiny Committee Annual Report 2017/18 which incorporates its annual self-assessment using the CIPFA Audit Committees Guidance.**
- 1.2 It is important that the Council's Audit and Scrutiny Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.
- 1.3 The CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit and Scrutiny Committee against its remit (Audit functions) for submission to the Council. The Audit and Scrutiny Committee Annual Report 2017/18 is appended to this report as Appendix 1 for consideration. Scottish Borders Council continues to be a lead authority in adopting this best practice.
- 1.4 The Audit and Scrutiny Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 15 January 2018 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles and a medium degree of effectiveness, the latter in recognition of the significant change in membership during 2017 and the early stages of its 5-year journey.

**2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Approves the Audit and Scrutiny Committee Annual Report 2017/18 (Appendix 1) which incorporates its self-assessments (Appendices 2 and 3) using the CIPFA Audit Committees Guidance; and**
  - b) Agrees that the Audit and Scrutiny Committee Annual Report 2017/18 should be presented to the Council and then published on the Council's website.**

### **3 BACKGROUND**

- 3.1 It is important that the Council's Audit and Scrutiny Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's 2013 Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.
- 3.3 The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit and Scrutiny Committee against its remit for submission to the Council. The Audit and Scrutiny Committee Annual Report 2017/18 is appended to this report as Appendix 1 for consideration. Scottish Borders Council continues to be a lead authority in adopting this best practice.
- 3.4 The Audit and Scrutiny Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 15 January 2018 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.
- 3.5 The outcome of the self-assessments was a high degree of performance against the good practice principles and a medium degree of effectiveness, the latter in recognition of the significant change in membership during 2017 and the early stages of its 5-year journey. Improvements have been identified by the Committee: obtain feedback on its performance from a range of Service Directors who interact with the Committee on a periodic basis; and enhance its scrutiny and challenge of internal controls, risks management, and governance including those to ensure effective change, value for money and quality through the full reporting cycle.
- 3.6 The Audit and Scrutiny Committee Annual Report 2017/18 is designed both to provide assurance to full Council and to provide some actions for the Committee to improve its effectiveness.

### **4 IMPLICATIONS**

#### **4.1 Financial**

There are no direct financial implications associated with this report.

#### **4.2 Risk and Mitigations**

- (a) The role of the Audit and Scrutiny Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.
- (b) There is a risk that the Audit and Scrutiny Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification and implementation of improvement actions as evidenced through this Annual Report will mitigate this risk.

#### 4.3 Equalities

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

#### 4.4 Acting Sustainably

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

#### 4.5 Carbon Management

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

#### 4.6 Rural Proofing

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

#### 4.7 Changes to Scheme of Administration or Scheme of Delegation

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

### 5 CONSULTATION

5.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.

5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, the Clerk to the Council and Corporate Risk Officer have been consulted on this report and any comments received have been incorporated in the final report.

#### Approved by

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

#### Author(s)

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

#### Background Papers:

**Previous Minute Reference:** Audit and Risk Committee 28 March 2017; Scottish Borders Council 30 March 2017

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

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**SCOTTISH BORDERS COUNCIL**  
**AUDIT AND SCRUTINY COMMITTEE**  
**ANNUAL REPORT FROM THE CHAIRMAN – 2017/18**

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

### **Meetings**

The Audit and Scrutiny Committee has met 5 times during the financial year relating to its Audit functions which included meetings on 28 June, 25 September, 13 November 2017, 15 January and 19 March 2018 to consider reports pertinent to the audit cycle. In line with best practice the meetings include an Informal Session, without Management present, to enable the members of the Committee to meet privately and separately with the external auditors and with the Chief Officer Audit & Risk to raise any matters with the auditors pertinent to the annual audit cycle of reporting. There is a structured work programme of Informal Sessions of Audit and Scrutiny Committee which was effective to align with the audit cycle. For Scrutiny business only the Committee also met on 28 August, 26 October, 30 November 2017, and 15 February 2018.

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

The Committee approved the terms of reference for Internal Audit (Internal Audit Charter) and the internal audit strategy and annual plan. It considered Internal Audit's executive summaries of reports findings, audit opinions, good practice and recommendations and monitored their implementation. It monitored Internal Audit's performance including progress against the audit plan and conformance with Public Sector Internal Audit Standards 2017 (PSIAS), and considered the Chief Officer Audit & Risk's annual assurance report.

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

The Committee considered the effectiveness of the risk management process throughout the Council. It scrutinised progress with previously agreed Improvement Actions to meet the objectives in the Corporate Risk Management Strategy to fulfil the Policy requirements, both approved by the Council. It received presentations by Service Directors, using a scheduled call back programme, on the strategic risks facing the services and the internal controls and governance in place to manage those risks to demonstrate how risk management is embedded within services.

The Committee considered the adequacy and effectiveness of the Council’s systems of internal financial control including counter fraud prevention and detection controls throughout the Council. It specifically received a progress report on implementation of previously agreed Improvement Actions to meet the objectives in the Counter Fraud Strategy to fulfil the Policy requirements in tackling fraud, theft, corruption and crime, both approved by the Council, to ensure their on-going effectiveness, and received details of the Council’s participation in the National Fraud Initiative and other counter fraud measures whose outcomes were included in the Annual Report.

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

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

### Membership

The Membership of the Audit and Scrutiny Committee is part of the approved Scottish Borders Council’s Scheme of Administration (approved 7 November 2017; amended 21 December 2017) namely “Nine members of the Council not on the Executive Committee” and “three additional members appointed from an external source as non-voting members” (attending that part of the Audit and Scrutiny Committee meeting only which is considering Audit matters). This structure complies with best practice on independence as evidenced through the use of the Checklist from the CIPFA Audit Committees Guidance for the assessment of the Audit and Scrutiny Committee. Three non-voting external members were appointed from the community following a recruitment and selection process carried out during autumn 2015; however there is currently only one remaining due to a variety of reasons, and the Committee has determined that two additional members should be appointed from an external source as non-voting members for appointment in October 2018. This enhances the robustness and independence of the Audit and Scrutiny Committee’s role in the scrutiny process of internal controls and governance.

The Committee membership during the year was Councillors S Bell (Chairman), H Anderson, K Chapman, J Fullerton, S Hamilton (Vice Chairman), N Richards, H Scott, R Tatler, E Thornton-Nicol and Mr M Middlemiss.

The attendance by each member at the Committee meetings throughout the year which considered Audit matters was as follows:

<b>Member</b>	<b>Meeting of 28 June 2017</b>	<b>Meeting of 25 September 2017</b>	<b>Meeting of 13 November 2017</b>	<b>Meeting of 15 January 2018</b>	<b>Meeting of 19 March 2018</b>
<b>Cllr S Bell (Chair)</b>	Present	Present	Present	Present	Present
<b>Cllr H Anderson</b>	Present	Present	Present	Present	Present
<b>Cllr K Chapman</b>	Apologies	Present	Absent	Present	Absent
<b>Cllr J Fullerton</b>	Apologies	Present	Present	Present	Present
<b>Cllr S Hamilton</b>	Present	Present	Apologies	Present	Present
<b>Cllr N Richards</b>	Present	Present	Present	Present	Present
<b>Cllr H Scott</b>	Present	Present	Absent	Present	Present
<b>Cllr R Tatler</b>	Apologies	Present	Present	Present	Present
<b>Cllr E Thornton-Nicol</b>	Present	Present	Present	Present	Present
<b>Mr M Middlemiss</b>	Apologies	Apologies	Present	Apologies	Present

Every meeting of the Audit and Scrutiny Committee in 2017/18 which considered Audit matters was quorate (i.e. at least four Elected Members present).



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

### **Skills and Knowledge**

Given the wider corporate governance remit of Audit and Scrutiny Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit and Scrutiny Committee members bring to the committee to fulfil its Audit functions, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas. A Members Induction session for Audit and Scrutiny Committee was delivered on 20 June 2017 setting out the Committee’s role, Governance and Audit prior to their first meeting.

Briefings and seminars have been delivered to help Committee members extend their knowledge as part of the Informal Sessions e.g. 25 September 2017 – ‘Borrowing and Treasury Management in Councils’ which covered the following headings from the Audit Scotland Scrutiny checklist for councillors (Treasury management strategy and related reports; Borrowing and other financing decisions; Affordability and sustainability; Performance and benchmarking); 15 January 2018 – Audit Committee annual self-assessment using CIPFA Audit Committees Best Practice checklist and Effectiveness toolkit when all Audit and Scrutiny Committee Members received the ‘Knowledge and Skills Framework’ for use in identifying their needs to enhance their knowledge, as appropriate; and 19 March 2018 self-assessment using the ‘Scrutiny Tool for Councillors’ from the Audit Scotland report “Local Government in Scotland – Financial Overview 2016/17” to determine their understanding of the Council's financial position and enable scrutiny of financial performance.

### **Self-Assessment of the Committee**

The annual self-assessment was carried out by members of the Audit and Scrutiny Committee on 15 January 2018 during an Informal Session facilitated by the Chief Officer Audit & Risk using the ‘Good Practice Principles Checklist’ and ‘Evaluation of Effectiveness Toolkit’ from the CIPFA ‘Audit Committees Guidance’. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

The outcome of the self-assessments for the Committee was a high degree of performance against the good practice principles and a medium degree of effectiveness, the latter in recognition of the significant change in membership during 2017 and the early stages of its 5-year journey. The following improvements have been identified by the Committee: obtain feedback on its performance from a range of Service Directors who interact with the Committee on a periodic basis; and enhance its scrutiny and challenge of internal controls, risks management, and governance including those to ensure effective change, value for money and quality through the full reporting cycle.

### **Assurance Statement to the Council**

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

- The Council has received the Minutes of the Audit and Scrutiny Committee meetings throughout the year.
- The Audit and Scrutiny Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in CIPFA Position Statement relating to its Audit functions.

- It did this through material it received from Internal Audit, External Audit, other audit and inspection bodies, and assurance from Management. It focussed entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and its stakeholders.
- For all audit reports, the Audit and Scrutiny Committee considered whether it was satisfied that an adequate Management response was in place to ensure action would be taken to manage risk and address concerns on internal controls and governance arrangements. The Committee acknowledges that all the audit recommendations are input to Pentana, the Council's performance management system, and that there is a system in place of on-going follow-up by Internal Audit and reporting thereon.
- The Audit and Scrutiny Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit and Scrutiny Committee will review the Annual Accounts 2017/18 in draft of the Council and of the Pension Fund at its meeting on 26 June 2018 and will review these in final at its meeting on 25 September 2018 alongside External Audit reports on their annual audits 2017/18 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Scrutiny Committee has reflected on its performance during the year in respect of its Audit functions, and has identified areas for improvements.

### **Recommendation of the Terms of Reference for the Audit and Scrutiny Committee for the coming year**

During the annual self-assessment the Committee considered its current Membership and has determined that two additional members should be appointed from an external source as non-voting members for appointment in October 2018. It is therefore proposed that a change from three to two additional members from an external source be reflected in the Terms of Reference for the Committee.

Councillor Stuart Bell  
Chairman of Audit and Scrutiny Committee  
June 2018

**CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2013 Edition**

**Scottish Borders Council Audit and Scrutiny Committee – self-assessment of Good Practice at 15 January 2018**

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	Yes	Scheme of Administration approved by the Council 7 November 2017 (amended 21 December 2017) includes the remit of the Audit and Scrutiny Committee.
Does the audit committee report directly to full council?	Yes	Council approves Minute of each Audit and Scrutiny Committee meeting.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement	Yes	Review has been completed by Chief Officer Audit & Risk against CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2013 (CIPFA guidance 2013 ‘audit committees’).
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	Scheme of Administration is published on the shared X:drive. References to Audit and Scrutiny Committee role and reports are made to Senior Officers at Management Team meetings on a regular basis and to Corporate Management Team in advance of each Audit and Scrutiny Committee meeting by Chief Officer Audit & Risk.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	<p>The Audit and Scrutiny Committee is a key part of the Council’s governance framework as outlined in the SBC Local Code of Corporate Governance approved by the Council on 24 August 2017.</p> <p>The Audit and Scrutiny Committee Annual Report is presented to and approved by the Council each year. SBC continues to be a lead authority in adopting this best practice. As part of its annual self-assessment 2017/18 the Audit and Scrutiny Committee has provided evidence of improvements implemented during the year to enhance its scrutiny and challenge role.</p>
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	<p>The Audit and Scrutiny Committee annually reviews its terms of reference as part of it carrying out an annual self assessment of performance against best practice checklists.</p> <p>The Audit and Scrutiny Committee Annual Report is presented to the Council. It sets out the activities to enable stakeholders to understand how the Audit and Scrutiny Committee has discharged its duties and identifies areas of improvement to fulfil its remit. SBC continues to be a lead authority in adopting this best practice.</p>

**CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2013 Edition**

**Scottish Borders Council Audit and Scrutiny Committee – self-assessment of Good Practice at 15 January 2018**

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

## CIPFA 'audit committees' Practical Guidance for Local Authorities and Police 2013 Edition

### Scottish Borders Council Audit and Scrutiny Committee – self-assessment of Good Practice at 15 January 2018

#### Functions of the committee (cont'd)

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

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Membership and support	Yes/Partly /No	Comments
<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>• separation from the executive</li> <li>• an appropriate mix of knowledge and skills among the membership</li> <li>• a size of committee that is not unwieldy</li> <li>• where independent members are used, that they have been appointed using an appropriate process.</li> </ul>	Yes	<p>The membership of the Audit and Scrutiny Committee comprises nine members of the Council not on the Executive Committee, and (for Audit matters part of the meetings) three non-voting additional members appointed from an external source. The latter helps to enhance the robustness and independence of the Audit and Scrutiny Committee's operations.</p> <p>There is an open recruitment and selection process to appoint external members of the Audit and Scrutiny Committee outwith the cycle of local elections to facilitate continuity management of membership (Selection Committee; appointment for 3 years to October 2018).</p>
<p>Does the chair of the committee have appropriate knowledge and skills?</p>	Yes	<p>Further to members' training, the chair of the Audit and Scrutiny Committee meets regularly with the Chief Officer Audit &amp; Risk including pre-meetings.</p>
<p>Are there arrangements in place to support the committee with briefings and training?</p>	Yes	<p>There is a comprehensive Induction Programme for those appointed to the Audit and Scrutiny Committee including: Outline of Corporate Governance; role of the Audit and Scrutiny Committee; role of Internal and External Audit; Assurance Framework; and Audit Cycle. Informal Sessions involving Internal and External Auditors usually prior to each Audit and Scrutiny Committee meeting are used for the purpose of briefing and training to coincide with the Audit Cycle.</p>
<p>Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>	Yes	<p>A formal assessment against the Knowledge and Skills Framework was carried out 15 January 2018 as part of the annual self-assessment with conclusion of satisfactory skills and knowledge.</p>
<p>Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?</p>	Yes	<p>Members, in particular the chair of the Audit and Scrutiny Committee, utilise opportunities as required to meet with the key people involved in the Council's governance e.g. the Leader of the Council, the Chief Executive, the Chief Financial Officer, the External Auditor and the Chief Officer Audit &amp; Risk.</p>
<p>Is adequate secretariat and administrative support to the committee provided?</p>	Yes	<p>A Committee Officer is assigned to the Audit and Scrutiny Committee.</p>

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Effectiveness of the committee	Yes/Partly /No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	<p>As an improvement the Audit and Scrutiny Committee will obtain feedback on its performance from a range of Service Directors who interact with the Committee on a periodic basis.</p> <p>The Audit and Scrutiny Committee Annual Report is presented to the Council each year. It sets out the activities to enable stakeholders to understand how the Committee has discharged its duties. SBC continues to be a lead authority in adopting this best practice.</p>
Has the committee evaluated whether and how it is adding value to the organisation?	Yes	<p>The Audit and Scrutiny Committee carries out an annual self assessment of performance against best practice checklists. On 15 January 2018 as part of the Informal Session prior to the meeting using the toolkit ‘Evaluating the Effectiveness of the Audit Committee’ from the CIPFA guidance 2013 ‘audit committees’, it evaluated how effectively it had fulfilled its Audit functions in its first year as a new combined-remit Committee with new membership, having taken account of recommended good practice and lessons learned from the previous Committee.</p>
Does the committee have an action plan to improve any areas of weakness?	Yes	<p>As part of its annual self-assessment 2017/18 the Committee has recognised where it could improve in respect of its scrutiny and challenge role to fulfil its remit and to further add value.</p>



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Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
1. Promoting the principles of good governance and their application to decision making	Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised Local Code of Corporate Governance and AGS. Chair met with Chief Executive / Chief Financial Officer on a regular basis. Committee supports the role of audit in improving internal control and governance. Committee received presentations and reports from Management and Auditors. Chair has met Audit Committees' Chairs of other local authorities, IJB and NHS Borders.	3
2. Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from Auditors e.g. follow-up activity. Service Directors attended Committee meetings on request to discuss progress with improvement actions to manage risks.	4
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	Induction materials included Policy and Strategy on Risk Management. Committee received presentations by various Service Directors on their key risks and mitigations to hold Management to account. (not yet through full reporting cycle)	3
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Induction programme outlined Governance and Assurance Framework and Audit Cycle. Annual Strategies, Plans and Reports received from Auditors, Local Scrutiny Plan from Audit Scotland on behalf of inspection agencies. (not yet through full reporting cycle)	3

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	Committee approved the Internal Audit Charter and Strategy, and received mid-term performance report against plan and PSIAS. (not yet through full reporting cycle)	3
6. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Auditors provided assurance on governance arrangements for corporate transformation programme and performance management, including lessons learned and sharing best practice.	2
7. Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Auditors provided assurance on value for money arrangements e.g. transformation, sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value.	3
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governance bodies.	Induction materials included Counter Fraud Policy and Strategy. Auditors provided assurance on fraud risks and counter fraud controls. (not yet through full reporting cycle)	3
9. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging transparency.	Committee scrutinised annual accounts and reports prior to publication and audit, and commented on the format/content for users. Committee received reports from Auditors covering governance of ALEOs.	4

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

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