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AUDIT AND SCRUTINY COMMITTEE MONDAY, 24 SEPTEMBER 2018

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 24 SEPTEMBER 2018 at 10.15 am.

As previously agreed, there will be an Informal Briefing Seminar for All Members at 9.30 a.m. on Treasury Management prior to the main meeting for the Members of the Committee.

The Audit Scotland report 'Borrowing and treasury management in councils' published in March 2015 on findings from a national review of borrowing and treasury management arrangements across all Scottish councils was presented to the Audit and Risk Committee on 11 May 2015. The report includes a Scrutiny checklist for councillors with Questions for councillors on borrowing and treasury management.

The Informal Briefing Seminar for all Elected Members will provide a refresh on the following headings from the Scrutiny checklist for councillors:

- Treasury management strategy and related reports
- Borrowing and other financing decisions
- Affordability and sustainability
- Performance and benchmarking

J. J. WILKINSON,
Clerk to the Council,

18 September 2018

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	SCRUTINY BUSINESS	
5.	Minutes (Pages 5 - 18) Minutes of Meetings of the Audit and Scrutiny Committee held on 23 August 2018 and 3 September 2018 to be approved and signed by the Chairman. (Copies attached.)	10 mins
6.	Scrutiny Work Programme (Pages 19 - 20) To consider draft Scrutiny Work Programme (Copy attached)	15 mins
7.	Any Other Scrutiny Items Previously Circulated.	

8.	Any Other Scrutiny Items which the Chairman Decides are Urgent	
9.	AUDIT BUSINESS	
10.	Action Tracker (Pages 21 - 24) To note progress made on the Action Tracker (Copy attached).	5 mins
11.	Risk Management in Services Presentation by Chief Financial Officer on the strategic risks facing the service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation)	30 mins
12.	Annual Treasury Management Report (2017/18) (Pages 25 - 44) Consider annual report by Chief Financial Officer on the Council's Treasury Management activities undertaken during financial year 2017/18 for review and scrutiny prior to Council approval. (Copy attached.)	15 mins
13.	Annual Audit Reports 2017/18 (Pages 45 - 166) Consider various Annual Audit Reports from the relevant External Auditors. (Copy attached)	20 mins
14.	Final Audited Reports and Accounts 2017/18 (Pages 167 - 172)	20 mins
	(a) Scottish Borders Council (Pages 173 - 296)	
	(b) SBC Common Good Funds (Pages 297 - 320)	
	(c) SBC Charitable Trusts:	
	(i) SBC Welfare Trust (Pages 321 - 342)	
	(ii) SBC Education Trust (Pages 343 - 360)	
	(iii) SBC Community Enhancement Trust (Pages 361 - 382)	
	(iv) Ormiston Institute (Pages 383 - 400)	
	(v) SBC Charitable Funds (Pages 401 - 422)	
	(d) Bridge Homes LLP (Pages 423 - 442)	
	(e) SB Supports LLP (Pages 443 - 472)	
	(f) SB Cares LLP (Pages 473 - 506)	
	(g) Scottish Borders Council's Pension Fund (Pages 507 - 594)	
15.	National Performance Report by Audit Scotland (Pages 595 - 600) Consider report designed to share best practice and lessons learned on	10 mins

	“2016/17 audit of Dundee City Council: Report of a significant fraud” response by Chief Financial Officer. (Copy attached)	
16.	Internal Audit Work to July 2018 (Pages 601 - 612) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2018/19, and the work of the Scottish Local Authorities Chief Internal Auditors Group (Copies attached)	15 mins
17.	Any Other Audit Items Previously Circulated.	
18.	Any Other Audit Items which the Chairman Decides are Urgent.	

NOTES

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

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

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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, 23 August 2018 at 10.00 am

- Present:- Councillors S Bell (Chairman), H Anderson, K Chapman, J. Fullarton, S Hamilton, N Richards, H Scott, R Tatler and E Thornton-Nicol.
- Absent:- Councillor Fullarton.
- Also Present:- Councillor M. Rowley, T. Weatherston.
- In Attendance:- Service Director Customer and Communities, Customer Services Manager, Financial Inclusion & Support Team Leader, Principal Internal Auditor (S. Holmes), Clerk to the Council, Democratic Services Officer (F Henderson).

1.0 WELCOME AND INTRODUCTIONS

The Chairman welcomed those present to the meeting.

2.0 MINUTE

There had been circulated copies of the Minute of 26 June 2018.

DECISION

(a) APPROVED for signature by the Chairman.

(b) NOTED that, in respect of recommendation 3(ii), the Chief Officer Roads would provide an update to Members at the next meeting of the Committee in respect of corrective action in place to address the issues identified in the Fleet Management Workforce Plan.

3.0 WELFARE BENEFITS SERVICE CHANGES PETITION

3.1 There had been circulated copies of an extract from the Audit and Scrutiny Committee Petitions procedure and the Chairman explained the procedure to be followed. The Chairman welcomed Ms Jenny Mushlin, Lead Petitioner who was in attendance to present a petition on the Welfare Benefits Service changes and was accompanied by Jenny Smith – Chief Officer (Borders Care Voice) and Marc Bremner - Member of the Mental Health & Wellbeing Forum.

3.2 Ms Mushlin commenced her presentation by explaining the subsequent workload which had been created by the change to the Welfare Benefits system, in that people currently with indefinite awards of disability living allowance (DLA) were being migrated to Personal Independence Payment (PIP). By October 2017 over 97,000 people within Scotland had been reassessed of which nearly £17,000 (17.3%) had not been given any award. Of the Appeals made against these decisions, 65% were successful, appeals made locally had been carried out by the previous Welfare Benefits Service and Citizens Advice Bureau (CAB). Ms Mushlin went on to explain that six major benefits had been transferred to Universal Credit (UC), with the full service recently going live in Scottish Borders. This benefit is an online claim, regardless of the claimant's IT skills. Transitional protection (where you keep your current rate of benefit) may also be different. It was possible that claimants may only keep the benefit until a change of circumstances and then they would

not receive it if they claim Universal Credit before being invited, but this had yet to be finalised. Ms Mushlin continued with her statement, covering each request within the petition.

3.3 SBC employ Welfare Benefits Assistants or other Staff who have a specific remit to assist with initial completion of form application.

It was explained that the PIP application form was 40 pages long with 12 pages of guidance and used a points system which was unfamiliar to most people. There were examples of staff in a range of organisations spending hours completing forms rather than doing the job they were employed to do. It was advantageous to have a well completed form, should it go to appeal. The same was true of Employment Support Allowance (and its equivalent form in UC). Dedicated staff know which details were relevant and how to sensitively approach people dealing with a claim which was very personal and potentially distressing to complete.

The petition requested that all Customer Services Staff were well trained to handle welfare benefits queries and recognise all queries, which may appear deceptively simple, and should be handled by a Financial Inclusion Officer. It was further requested that SBC recruit sufficient staff for initial form completion and should demand outstrip supply, further staff be recruited.

3.4 Regularly Monitor and listen closely to Citizens Advice Bureaux on their workload with initial and pre-assessment support, including waiting times for the public

The Citizens Advice Bureaux do not exclusively provide Welfare Benefits Advice and have an extensive caseload dealing with various aspects of debt and all aspects of life. They are staffed mainly by volunteers who have to work at a paralegal level. The CAB are based only in major towns and people cannot necessarily access the service.

The petition requested that a transparent report be provided detailing any increase in trends of Welfare Benefits casework to CAB, particularly with form filling and pre-assessment support. This seems to be where people are being directed from SBC. These reports should be public and reported regularly (quarterly) to Borders Care Voice and the Mental Health & Wellbeing Forum.

3.5 SBC offer a comprehensive service, giving advice on all aspects of the welfare benefits system - from initial claims to representation at tribunals

Both PIP and UC were relatively new benefits with little from the Upper Tribunal, which was binding in law. There have been 2 major Upper Tribunal PIP decisions – one on psychological distress in the mobility component and one on safety. It was anticipated that there would be many more decisions which would change the goalposts and claimants were likely to be unaware that they were wrongly refused a benefit and this required to be addressed at the Welfare Benefits Advice level. There was concern that the current staffing resource was not adequate for the future demands that welfare benefits changes would create as anecdotally the appeal involved two days work per case.

Action requested in the petition – Request that the number, type of claims and appeals, success rate and demographics of those accessing the Financial Inclusion Service, as well as the amount generated for the local economy, should be publicly available and reported to Borders Care Voice and the Mental Health & Wellbeing Forum on a regular basis.

3.6 SBC ensure that home visits are provided, at any stage, for those unable to physically or financially get around (this was not currently recognised in the Equality Impact Assessment)

Ms Mushlin was astounded that the removal of home visits had not been recognised in the Equality Impact Assessment, given the rurality of the Borders. The high cost of public transport presents real difficulties for those reliant on the service to access building based

services and those claimants with physical disabilities and long term conditions have great difficulty travelling anywhere for advice. There are tight deadlines at all stages of the claim process from initial claim to appeal which are easy to miss if advice cannot be accessed timeously.

The petition requested that home visits are available for those unable to travel and that these requests and home visits undertaken be monitored and reported.

3.7 SBC ensure that there are sufficient staff resources within SBC for maximisation of benefit within the Borders and that all receive a right to a fair hearing

Due to the changes and the high level of error in PIP assessments, there was concern that the current staffing level was not adequate.

3.8 SBC acknowledge the error made in not carrying out any public consultation prior to the changes to the Welfare Benefits Service

Ms Mushlin reported a lack of consultation with members of the public and those who claim benefits in respect of the changes. Assumptions were made which did not have any evidence to support them. There was no evidence to date of any public consultation either for the proposed service redesign or any monitoring of the impact of the changes. There appeared to be little understanding of the issues people claiming benefits were facing.

3.9 Monitor and report the impact on the groups with protected characteristics listed as negatively impacted by the Equality Impact Assessment (EIA)(poverty, age, disability, and those classified as living in remote small towns, accessible rural and remote rural areas.

The Carer appeared to have been omitted in the EIA as negatively impacted. Anything that negatively affects the income, support and health and wellbeing of the person cared for will automatically negatively affect the carer.

The petition requested that the impact on all groups with protected characteristics with the addition of carers should be reported regularly to Borders Care Voice and the Mental Health and Wellbeing Forum. Those living in areas defined as remote small towns, accessible rural and Remote Rural be included in the general impact monitoring of the change of service and reported to Borders Care Voice and the Mental Health and Wellbeing Forum.

3.10 Ms Mushlin requested that there be extensive consultation on the new service to find out how well it works for individuals and the other services which support them. Those claiming benefits should be consulted as to what required to be improved. In conclusion, Ms Mushlin advised that there was known to be association between financial uncertainty, money worries and poor mental health. Fewer than 1 in 10 people without mental health problems have debt problems, this rises closer to one in four among those with depression or anxiety. Problems with welfare benefits and poverty could trigger both known and new mental health problems. Ms Mushlin urged Scottish Borders Council to recognise that the Welfare Benefits Service was a vital service for the mental health and wellbeing of all in the Borders and requested that monitoring of the effects of the changes be undertaken and appropriate action taken.

3.11 In response to questions from Councillors with regard to evidence of a drop in standard of support, Ms Mushlin advised that there was anecdotal evidence of the lack of support. Ms Mushlin was of the opinion that SBC should be collecting information about the impact of the changes in service had on claimants. Ms Mushlin further explained about the Upper Tribunal, if there was a point of law it would be taken to the Upper Tribunal and the law could be changed by cases taken to the Upper Tribunal and the goal posts changed all the time. In relation to engagement with CAB, it was explained that the Development Officer for Borders Care Voice had general meetings with Financial Inclusion Officers, RSLs and Citizens Advice. In response to further Members' questions, Ms Mushlin

advised that the previous service had been professional and accessible. However, while the service remained professional it was only accessible if people could find out about it.

- 3.12 Jenni Craig, Service Director Customer & Communities was present with Councillor Weatherston, Executive Member for Adult Social Care and explained that since 1 November 2017 Customer Services, the Homelessness and Welfare Benefits Services had merged and restructured to become one integrated service called Customer Advice and Support Service. Welfare Benefits Officers were now known as Financial Inclusion Officers, forming part of the Financial Support and Inclusion Team along with the Scottish Welfare Fund Team and sat within the wider Homelessness and Financial Support Team. The aim of the restructure was to ensure that the level of service provided continued and in some areas improved, ensuring Scottish Borders Council (SBC) was prepared for ongoing Welfare Reform including the rollout of Universal Credit. The Department for Work and Pensions (DWP) expectation on customers to self-serve online had created increased demands on Council services to assist customers. Prior to 1 November 2017 the equivalent of 1.7FTE Welfare Benefit Assistants were employed to assist with basic benefit enquiries including form filling with customers. There were now 49 Customer Advice & Support Advisors (CASAs) across a wider range of locations, with a remit to assist customers at the first point of contact with their enquiry whether they present in a locality office, face to face, over the telephone or online. These Advisers already deal with a range of benefit enquiries and applications as well as carrying out assessments for blue badges. The aim was to provide a holistic service where a customer could speak to the same member of staff on a range of topics.
- 3.13 The re-development of some former welfare benefits staff into other areas within CASS had retained their expert knowledge and skills within the service. Both customers and staff were therefore benefiting from easier knowledge and service accessibility and the new structure provided wider, better accessibility to learning opportunities, access to systems, training and support. SBC had contracted the Borders Citizens Advice Consortium (BCAC) for many years to provide services to customers including benefit, money and debt advice and assistance to challenge benefit decisions. Contract monitoring meetings occurred quarterly between SBC managers and BCAC managers. Quarterly liaison meetings were held between front line SBC team leaders and BCAC managers to discuss trends, issues and share best practice. SBC and BCAC staff regularly attended external meetings to discuss current benefit related issues and SBC team leaders were in regular contact with BCAC managers via email or telephone to immediately respond to any issues. Housing Associations also provide help for tenants, representing them at Appeal Hearings.
- 3.14 Mrs Craig acknowledged, that in hindsight, a consultation with service users may have been beneficial. The new model integrated staff who very often were giving advice to the same people and provided a wider service for those who needed it. There was a misconception about what was trying to be achieved and help was available for the completion of applications and a home visit would be provided should it be required. Mrs Craig stated that staff had reported that there was no back log of applications, they were coping with the work coming in and were not turning people away. It was perhaps a case of making it clearer that specialist advice was available. It was challenging to get a clear idea of the problems, but this would be monitored closely together with the level of demand. Mrs Craig would be pleased to hear from users of the service and Councillor Weatherston gave positive feedback received from clients using the contact centre. Mrs Craig also gave some details of the new Scottish Social Security Agency and the change from DLA to PIP. The new Agency would have a presence in each local authority area from spring 2019, and would offer advice, help people to fill out forms and offer home visits. Specialist advice needed to be clear going forward, and Mrs Craig was happy to share the available data with Ms Mushlin, although it would be helpful to hone in on what would be the best key indicators to monitor.

- 3.15 Councillors sought clarification on the processes in place and the Financial Inclusion & Support Team Leader explained that each request would be assessed individually as every case was different, should a home visit be required, then it would be undertaken. In response to a question about the number of staff, Mrs Craig advised that there were 2 Financial Advisers and a McMillan post who would represent clients at tribunals. The 49 front-line staff had completed online training modules using SBLearn. The Customer Services Manager further explained that the service now had Development Officers and Assistants with a specific role in training any staff on changes to benefits, with built in escalation routes if staff did not know the answer to any question raised by an applicant. It was further explained that each Adviser had a caseload of 60 clients which were at various stages, which was considered manageable and the Advisers stayed involved until resolution. The level of caseloads was monitored regularly. Mrs Craig advised that it was difficult to measure impact of contact with SBC – numbers of people contacting SBC were held but there were no tracking outcomes if passed to other agencies. However, assistance would be provided to individuals if requested to contact agencies on their behalf. With regard to advice given, this was monitored by the Development team to check whether any adjustments were required to process. In terms of Ms Mushlin's requests, Mrs Craig agreed that communication on level of service provision and how to access required further clarification. Although thorough examination of the requests within the petition was required, Mrs Craig did not consider it unsurmountable on a first look. The Service worked with CABs to establish what information could be gleaned from CAB systems, with CAB staff working at the Council and vice versa to gain knowledge of the different processes.
- 3.16 On being asked to sum up by the Chairman, Ms Mushlin made reference to the complexity of Universal Credit having a strain on CAB and RSLs which could impact on support for people on PIP, etc. There had to be an understanding of what a PIP claim entails for applicants. It could be very demoralising to be faced with completing a 40 page form, which had to be very detailed, which in itself could cause distress to the individual as it brought home the reality of an individual's condition when they had to say what they could not do. The procedure could take 2 hours to complete which may be daunting for someone with depression or a mental health issue to sit in a small meeting room for that length of time. Letters to applicants moving from DLA to PIP could also be confusing for some individuals.
- 3.17 The Chairman then commented that while it was normal practice for officers to put recommendations on committee reports, when providing a briefing note in response to a petition this may not be appropriate. With regard to the decision to be reached by the Committee, there were 3 options available: refer the matter to another Committee or Director with or without comment; refer the matter to a relevant Community Planning Partner with or without comment; or take no further action. The Chairman made reference to the statement on the petition and Members considered what action to take.

**DECISION
AGREED:-**

- (a) that the service provision for welfare benefits claimants continue to be monitored on a regular basis, including seeking the views of clients on the service being provided;**
- (b) that consultation, including with service users, be carried out prior to any future changes to service provision;**
- (c) that communications be developed on how the service worked and could be accessed to try to address some of the misconceptions around claiming for benefits;**

- (d) **the Service Director Customer & Communities would work with Border Care Service to agree on the criteria for key performance indicators; and**
- (e) **the Service Director Customer & Communities would review the requests within the petition and provide a briefing note to the Audit & Scrutiny Committee and the petitioner on what could be put in place.**

4.0 **URGENT BUSINESS**

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to make an early decision and to keep Members informed.

BROADBAND IMPROVEMENTS REVIEW

- 4.1 With reference to paragraph 8 of the Minute of Executive Committee held on 21 August 2018, whereby the Audit and Scrutiny Committee had been asked to undertake a review of the progress made in delivering improved broadband services in the Scottish Borders by the Digital Scotland Superfast Broadband Programme. The Chairman had invited Councillor Mark Rowley, Executive Member for Business & Economic Development, to the meeting to advise Members of the background to the programme. Councillor Rowley explained that Scottish Borders Council had contributed significantly to the roll-out of the Scottish Government's Digital Scotland Superfast Broadband (DSSB) programme, contributing £8.4M to help extend the roll-out as far as possible in the Scottish Borders and achieve 93.8% coverage, but this coverage had not been achieved, and many Borders homes remained without connections for superfast broadband. The new R100 broadband programme was out to tender at the moment and the proposed review would feed in to this to enable the Council and the Borders to get the most out of this new programme. The Chairman then advised that he would be speaking with the Executive Director, Mr Dickson, and the Chief Officer Economic Development to agree the format of the review and what papers would be available for the Committee to consider. Councillor Chapman referred to a 2016 report by the Scottish Rural Parliament which could be helpful for the review and this would be investigated further. It was likely that additional meetings would be required for the Committee which had been asked to report back to the Executive Committee by 4 December 2018.

DECISION

AGREED to undertake the review of the Digital Scotland Superfast Broadband Programme in the Scottish Borders, including its outcomes.

MEMBER

Councillor Tatler left the meeting following consideration of the above item of business.

SCRUTINY BUSINESS

5.0 **DELIVERY OF THE IT STRATEGY AND PLAN WITHIN SCOTTISH BORDERS**

- 5.1 With reference to paragraph 2 of the Minute of 30 November 2017, the Chief Financial Officer was present to report on the IT Strategy and Plan within the Scottish Borders. Mr Robertson explained that the presentation would focus on the Enterprise Resources Planning (ERP) system and the vision for the Digital Customer Access (DCA) Portal, with no commercial detail from the contract being put forward in this public session. The CGI contract was a £90m plus investment over a 13 year period with the potential for extension which would provide a platform for change and transform the Council's IT function. The contract deliverables included the delivery of a new ERP System, a new DCA solution, a full refresh of the Council's hardware, protection against technical obsolescence, Cyber security resilience and market leading innovation. CGI would also set up a new Borders Service Centre, with up to 200 jobs over 5 years. Mr Robertson went on to advise that what had been delivered to date with CGI included major contract outsourcing; IT resilience, stability, security and refresh; and a major upgrade of the

Council's complicated and antiquated IT infrastructure. There had been issues with implementing the ERP system but rectification was largely complete and an upgrade to Milestone 7.2 was planned. The DCA project had been re-scoped and specification agreed. The Council's previous financial information system (F.I.S), HR/Payroll System (Resourcelink) and Purchasing System (Proactis) had all been replaced with a single integrated Finance and HR System. The benefits of having the one system included self-service, standardisation, integration and "one version of the truth". Mr Robertson reported that some of the lessons learned included addressing deficiencies in the post go live environment; retaining specialist consultants as system architects; issues identified with build post rectified by CGI at their cost, although SBC had put in staff time; and the detailed specification for the DCA project was now being developed jointly between Council staff and CGI. Not insisting on test system prior to going live turned out to be a significant shortcoming, and insufficient focus on end to end testing of processes prior to going live had resulted in testing being carried out in a live environment. Mr Robertson reassured Members that CGI had met the costs of rectification, although the Council had paid CGI for further enhancements not in scope in the original contract. When the contract had been signed, it was thought that Edinburgh City Council would be the pathfinder for the development work, but SBC moved forward more quickly so SBC had implemented ERP and Edinburgh had not yet done so. There had been too much focus on April 2017 go live date and an over reliance on the third party integration specialist (Agilysis) who had not provided the complete overview of all the workstreams involved as had been expected.

5.2 The Service Director Customer & Communities advised that in terms of DCA, this was a significant project alongside ERP in the contract. The original proposal for the digital platform for DCA was not fit for purpose and had to be re-designed. The contract with Agilysis had been terminated and Council staff had worked together with CGI staff to arrive at a new solution which was about to be agreed. The aim was to create a digital platform that customers would want to use, although the Council would still have face to face and telephone contact for those who could not or would not want to go online. A report on the Customer Strategy was due to be presented to Council in September. The key principles of DCA were the provision of a suite of different products, joined up in the background, but giving customers a digital front door with a 360° view: an example being, if someone reported a pothole then they would hear back on what was happening to it. The difference would be keeping people up to date and letting them know what was being done, trying not to pass people between Departments within the Council. The future DCA portal vision was to have Council back office systems linked up seamlessly, with further links to the national patient portal and Scottish national account. As a customer coming in to the system, the individual would have a range of options and would only have to input their details once. It was anticipated that DCA would take a year to implement this to full effect for customers. The Chairman referred to some detail within the private report to Council in March 2016 and the targeted savings associated with digital transformation. Savings of £1.5m had been anticipated this year but only £600k had been achieved and the gap needed to be filled. Mr Robertson explained that there had been delays in the implementation of both ERP and DCA, although a number of savings had been achieved. The scale of the Council's ambition for savings had not yet been realised but officers were still endeavouring to deliver these within the Financial Plan expectations, identifying alternative savings where necessary. The impact of the contract was included in financial monitoring reports to the Executive Committee, although there were no separate monitoring report specifically on the CGI contract. CGI was currently working on the Service Centre location in the Borders, employing Modern Apprentices, unbundling IT structures and working on schools, with the latter commitment to schools being met.

5.3 In response to Members' questions, Mrs Craig advised that the upgrade to the Confirm system (roads management) was included as part of the CGI contract; this upgrade would then provide a link to the Councils' website which would map where potholes were and their status. Mr Robertson confirmed that CGI had been included in the national procurement framework with the contract led by Edinburgh Council – this had saved SBC

c.£1.8m costs in arranging a separate tender. Two companies – CGI and Capita – had been involved in the original bids with CGI the winning bid. With regard to the delivery date for the live ERP system, there had been contractual agreements between CGI and Agilysis to deliver on that date and while there had been assurances from both companies that the live system would work, in reality it was not ready. There had been elements of parallel running with some of the old systems e.g. payroll tests had run for 3 months, but the option to parallel run with all systems had not been given to the Council. The reality was the company was building the system as it was being brought in so no test system was available. Mr Robertson gave assurances to Members that despite what had happened, it had to be recognised that the Council had gone live with a very complex network and had done so before 2 other much larger Councils which were still trying to make the necessary changes.

MEMBER

Councillor H. Scott left the meeting during consideration of the above item of business.

DECISION

AGREED:

- (a) **to note the update on the work underway as part of the CGI contract;**
- (b) **that Members would check the private report on the ICT Review which had been considered by Council in March 2016 and send any questions to the Chief Financial Officer and Service Director Customer and Communities in advance of another meeting of Audit and Scrutiny which would consider further the delivery of the Council's IT Strategy and Plan.**

6. URGENT BUSINESS

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to make an early decision and to keep Members informed.

- 6.1 The Chairman advised Members that a Call-in Notice had been received from Councillor Ramage on a decision of the Executive Committee on 21 August 2018 relating to the Monitoring of the General Fund Revenue Budget Monitoring 2018/19. A special meeting of Audit and Scrutiny Committee would need to be set up to consider the Call-in.

DECISION

AGREED that a special meeting of Audit and Scrutiny Committee to consider the Call-in would be held on 31 August 2018, depending on officer/Member availability.

Meeting concluded at 1.10 p.m.

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTE of the SPECIAL Meeting of the
AUDIT AND SCRUTINY COMMITTEE held
in Committee Rooms 2 and 3, Council
Headquarters, Newtown St Boswells on
Monday, 3 September 2018 at 2.00pm

Present:- Councillors S Bell (Chairman), H Anderson, K Chapman, J Fullarton,
S Hamilton, N Richards, S Scott, and E Thornton-Nicol.
Apologies:- Councillor H. Scott.
Also Present:- Councillors S Haslam, S Marshall, C Ramage, R Tatler, G Turnbull, T
Weatherston.
In Attendance:- Chief Executive, Executive Director (P. Barr), Chief Financial Officer, Service
Director Children & Young People, Service Director Customer &
Communities, Chief Social Work Officer, Chief Officer Audit & Risk, Clerk to
the Council.

1. **CALL-IN: MONITORING GENERAL FUND REVENUE BUDGET (2018/19)**

1.1 With reference to paragraph 2 of the Executive Minute of 21 August 2018, there had been circulated copies of a Call-in of a decision of the Executive Committee relating to the Monitoring of the General Fund Revenue Budget Monitoring 2018/19. The decision of the Executive Committee was:

AGREED to:-

- (a) note the projected corporate monitoring position reported at 30 June 2018, the pressures identified, the underlying cost drivers of this position and the identified areas of financial risk as reflected in Appendix 1;*
- (b) approve the virements detailed in Appendix 2 to the report;*
- (c) note the progress made in achieving Financial Plan savings in Appendix 3 to the report;*
- (d) ask the Corporate Management Team to ensure measures continued to be taken to deliver a balanced budget in the current year; and*
- (e) reiterate support for a culture of sound financial management in all council departments to ensure the ongoing sustainability of the Council.*

1.2 Also circulated was an extract from the Minute of the Executive Committee of 21 August 2018; and the report and appendices considered by the Executive Committee on 21 August 2018.

1.3 The Call-in had been made by Councillor Ramage, supported by Councillors Bell, Marshall, McAteer and H. Scott, and was as follows:

"I would like to call in the decision of the Executive meeting on 21 August 2018 at item 5 on the agenda – the quarterly report on the Monitoring General Fund Revenue Budget 2018/19.

I do not consider that there was sufficient examination at the meeting of the 41 pages of detail which comprised this series of papers. That may result in the view that there should have been amendments or additions to the recommendations."

- 1.4 The Chairman, Councillor Bell, welcomed officers and Members to the meeting, and described the procedure to be used during the meeting before inviting Councillor Ramage to give her reasons for the call-in. Councillor Ramage explained that she had attended the meeting of the Executive Committee, having read the report and listed a series of questions which she had expected would have been asked by the members of the Executive, but detailed questions had not been asked. Councillor Ramage was deeply concerned that not enough attention seemed to be paid to the serious message given to Executive Committee in their report.
- 1.5 The Chairman then invited the Chief Financial Officer to briefly summarise the report to the Executive Committee. David Robertson advised that the report contained the first quarter's monitoring of the Revenue budget to the end of June 2018, highlighting pressures of £1.36m and explaining the management actions underway to address these pressures. These pressures amounted to c. 0.5% of the total revenue budget and a number of compensatory actions had been identified to cover them. Reference was also made in the report to the delays in developing reporting functionality within Business World but it was noted that a new forecasting tool was now in place for use by finance staff, with the roll out to budget managers starting. Progress had been made with respect to savings requirements, with £9.2m required by the Financial Plan already delivered and a further £7.2m profiled for delivery during the financial year. A range of challenges and a summary of the financial position of each Service, details of virements, and the status of financial savings were included in the 3 appendices to the report. The recommendations in the report were all agreed by the Executive Committee.
- 1.6 Members who had supported the Call-in and members of the Audit & Scrutiny Committee had been asked to submit questions beforehand to allow officers to prepare for the meeting, and a copy of these questions along with summarised answers was circulated at the meeting. The Chief Financial Officer gave answers to each of the questions and the Chairman gave members of the Committee the opportunity to raise any supplementary points for information or clarification. Mr Robertson confirmed that in terms of the pressures on the Health & Social Care budget, the adverse pressures on the budget - which were around 2.5% of the Health and Social care budget for adults - were viewed by the management team as very challenging but were not viewed as critical. The Health and Social care budget was experiencing sustained pressures from growth in demand for care packages for increasing numbers of elderly people and in particular growth in the number of care packages for the very elderly over 85 population. This was in line with the experience of other authorities across the country. It was noted that a change in strategic direction was not required with regard to care packages. The Council had a good track record of addressing pressures which was reflected in the budget planning process. Over the last few years the Council had made recurrent savings of £35m from its budget. There were continuing challenges facing the Council and these could best be addressed through a robust approach to cost control in all areas and through a focus on the appropriate long term planning of service delivery. It was crucial to prudent budget management that difficult choices were made when necessary to keep the Council financially viable. There were very significant pressures on Health & Social Care services from a range of contributory factors but these were being addressed at the moment. The Chief Executive confirmed that there would be more than one dementia care centre in the Borders, with the proposal for Queen's House addressing current need.
- 1.7 In response to a question submitted by Councillor McAteer regarding the scale of virements, Mr Robertson confirmed that the Council's Corporate Management Team (CMT) managed dynamically a very large, complicated budget with plans changing to reflect changing circumstances and budgets having to be moved throughout the year to address this. Virements were the means by which budget was adjusted during the year and demonstrated how officers were controlling the budget on a day to day basis. Financial Regulations, approved by Elected Members, required virements to be reported to the Executive Committee to show the necessary audit trail. Officers actively scrutinised and adjusted budgets as required and there was no breach of any Regulations or

guidelines issued by the Council's auditors. The auditors had previously endorsed the approach being taken to tracking the delivery of savings which were detailed in Appendix 3 to the report as either already achieved as per the Financial Plan; profiled to be achieved as per the Financial Plan; achieved on a permanent basis by alternative means to that within the Financial Plan; and achieved on a temporary basis by alternative means to that within the Financial Plan. This appendix showed how savings were managed and tracked. Members commented on the style and content of the appendices and queried the differences between permanent and temporary savings. Mr Robertson confirmed that Reserves were at the level agreed by Council as part of the 2018/19 financial strategy.

- 1.8 With regard to property rationalisation, Mr Robertson advised that the savings planned were part of the property portfolio strategy to make the best use of Council property, disposing of that which was no longer required and making the best use of the accommodation which remained. This disposal of property, and actions to ensure retained property was fit for modern working purposes, were taking longer than anticipated due in part to the limited capacity within the team which was also carrying out other property projects work e.g. new schools, flood schemes, remediation works on Borthwick Quarry, etc. CMT was confident that there would be savings from property rationalisation but these would be further down the line than originally envisaged. Ms Logan confirmed that CMT looked to make as much efficiency from the corporate overhead as possible, and would employ more staff if this would ultimately lead to more savings. Work was currently underway with NHS Borders and other partners to examine options for the joint sharing of property e.g. NHS staff to be based at Council HQ. CMT was always looking to reduce property where possible and practical but also had to consider putting staff into appropriate buildings.
- 1.9 The Service Director Children & Young People then gave further explanation of the following spend from budget - £190k as additional support in Galashiels Academy, Langlee Primary School and Burnfoot Primary School; £230k for a defined programme of work with Youth Borders and other partnership initiatives; £70k for additional social workers in the Hawick Locality Team and the Duty Team; £147k for additional Deputy Head Teachers in Hawick High School to provide additional management capacity; £150k on out of area placements; and £400k of savings being investigated. Assessments were carried out over the summer months as the number of children enrolled in schools changed and teacher allocations needed to change to match this. Mrs Manson further confirmed that a range of services were commissioned from a number of independent organisations to provide intensive support for very vulnerable children and where there were gaps in these organisations' grant funding, the Council stepped in to provide interim funding to avoid a break in service provision. The Council had been very successful in reducing budgets for out of area placements where other Councils had overspent and Mrs Manson was working closely with Mr Barr, Executive Director, on contracts to ensure best value was being met. The education service worked closely with the social work side to support the most vulnerable families using a corporate approach.
- 1.10 Councillor Bell suggested that in future consideration should be given to providing an appropriate balance of detail/information/explanation within the report and any resultant appendices. With regard to a question about including contingencies within the budget, Mr Robertson confirmed that the Council maintained Reserves as part of its risk management approach to financial planning to manage any significant variations and Ms Logan further advised that CMT managed the budget corporately through a shared approach, working as a team to resolve any issues, with Mr Robertson and the Finance team facilitating this approach. In answer to a question about care package reviews, the Chief Social Work Officer confirmed that it had been found that when people were provided with initial support they were prescribed a certain amount of care but once they settled back in their homes they did not need as much support. The facilities created at Waverley Home and Crawwood were now available to assist with the assessment and rehabilitation process for clients requiring care. Mr Leys confirmed no changes had been made to the criteria for assessing care. Ms Logan further advised that the review of a

care package was part of integrated care and resulted in a responsible reduction of a care package ensuring an appropriate level of support was in place based on need.

- 1.11 In response to a question regarding why only 23% of savings had been achieved as per the Financial Plan, Mr Robertson advised that these were only the savings delivered to the end of June 2018 and a further 44% of savings were profiled to be delivered per the Financial Plan in the remainder of the financial year. Going forward, the budget planning process would be as robust as possible to maximise the Council's resources. The Service Director Customer & Communities further confirmed that £1m of savings were due to be delivered through digital transformation with £500k delivered to date. Digital transformation savings would be achieved from staff as well as systems. Ms Logan also made reference to work underway on corporate savings through workforce changes across the organisation including potentially to terms & conditions, work patterns and flexible working. There had been delays in the implementation of Business World but the majority of functionality was now in place. Ms Logan then offered another briefing for Members on how financial budgets were planned, managed and changed, including the terminology associated with this, if this would help give Members greater insight into the processes and subsequent monitoring reports. With regard to virements, the policy and threshold on these could be reviewed to provide greater clarity. Virements in themselves were not an issue but any major deviations from the Financial Plan would need explanations. Ms Logan also advised Members that if any had concerns about any aspect of monitoring reports or any other committee report to come to see her or other members of CMT for clarification or explanation. As part of the budgeting process for next year, officers would review how to report financial planning, variations, style of reports and whether any policy changes were required as a result.

DECISION

- (a) **AGREED to:**
- (i) **note the decisions of the Executive Committee with regard to the monitoring of the General Revenue budget 2018/19; and**
 - (ii) **compliment the work of Council officers in terms of their review of the financial circumstances of the Council emphasising sound financial management.**
- # (b) **AGREED to recommend to the Executive Committee:**
- (i) **that all Elected Member be encouraged to approach the Chief Executive or member of the Corporate Management Team to seek further explanation or clarification for any matter contained within a financial monitoring, or any other, committee report;**
 - (ii) **that a further Members briefing session be held on financial planning, monitoring and terminology, to ensure Members had an understanding of the processes involved; and**
 - (ii) **to request the Chief Executive and Chief Financial Officer to investigate any changes which could be made in mechanisms used for virements.**

2 URGENT BUSINESS

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to make an early decision and to keep Members informed

3. **BROADBAND IMPROVEMENTS REVIEW**

With reference to paragraph 4 of the Minute of the Audit & Scrutiny Committee of 23 August 2018, the Chairman advised members of a discussion he had had with the Executive Director (R. Dickson) and Chief Officer Economic Development regarding the methodology for the proposed Review. A four phase approach was planned to take in the different components. The 1st phase would be a basic information/training session for members of the Committee to allow a greater understanding of the technology and technical terms. Next would be an invitation for Digital Scotland to address the Committee giving details of the project from its first inception to the present day; this would be followed by Council officers giving their experiences of the same project over the same timeframe. Following this, the Committee would need to decide what further details they wished to receive and then, after receiving all the required information, reaching a conclusion. The whole process was aimed at providing lessons learned for the R100 programme which was currently being rolled out. It was anticipated that the Review would start in October, with a report and recommendations to the Executive Committee in December 2018.

DECISION

AGREED the process and timeline for the Broadband Improvements Review.

The meeting concluded at 15.35 pm

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Scrutiny Work Programme 2018/19

	Review subject	Outcome/Lead Officer
1	Councillors' Role in staff matters	<ul style="list-style-type: none"> • Presentation giving an update on the role, guidance and training given to Councillors on staff disciplinary procedures, including hearings, appeals and industrial tribunals (Lead Officer(s): Clair Hepburn, Service Director HR and Iain Davidson, Employee Relations Manager)
2	Amey – Trunk Roads Management	<ul style="list-style-type: none"> • Presentation from Amey Scotland on trunk roads management. (Lead Officer: Martin Joyce, Service Director Assets & Infrastructure & David Girdler, Chief Officer – Roads).
3	Impact of Brexit on the Scottish Borders	<ul style="list-style-type: none"> • Presentation on the monitoring processes underway in SBC on potential impact of Brexit. (Lead Officer(s): Tracey Logan, Chief Executive and Douglas Scott, Senior Policy Advisor)
4	ALEOS and Live Borders	<ul style="list-style-type: none"> • Briefing on the performance monitoring process through the Major Contracts Governance Group. (Lead Officer: Philip Barr, Executive Director)
5	Information provided to Members in reports	<ul style="list-style-type: none"> • <u>Remove from proposed programme</u> – this will be picked up in the Review of the Scheme of Administration with the outcome of the Review the subject of a report to full Council. (Lead Officer(s): Tracey Logan, Chief Executive and Jenny Wilkinson, Clerk to the Council)
6	Co-wheels contract	<ul style="list-style-type: none"> • Presentation on the Co-wheels contract (Lead Officer: David Robertson, Chief Financial Officer)

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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
28 June 2017				
Scottish Borders Council's Local Code Of Corporate Governance	(b) AGREED:- (ii) that a presentation on the Scottish Borders Council Local Code of Corporate Governance be arranged for all Elected Members in due course.	Audit & Risk	Chief Officer Audit & Risk	Local Code of Corporate Governance has since been updated, scrutinised by A&SC, and approved by Council on 28 June 2018.
25 September 2017				
Internal Audit Work to August 2017	AGREED to request the Service Director Assets and Infrastructure present a report advising the corrective action in place to address the issues identified in the Fleet Management workforce plan.	Assets & Infrastructure	Chief Officer Roads	Ongoing – Chief Officer Roads to provide update on progress to A&SC on 24 September 2018.
13 November 2017				
External Membership of Audit and Scrutiny Committee	DECISION AGREED that the appointment of external members to the Audit and Scrutiny Committee be considered at the next meeting of the Committee.	Audit & Risk	Chief Officer Audit & Risk	Complete – considered during annual evaluation of Committee.
14 May 2018				
Risk Management in Services	AGREED that future reports in respect of Risk Registers would include the scoring for all Risks.	Audit & Risk	Chief Officer Audit & Risk	Complete - Presentation format amended accordingly.
Internal Audit Annual Assurance Report 2017/18	AGREED that the Internal Audit Annual Assurance Report for 2017/18 be published on the Council's website.	Audit & Risk	Chief Officer Audit & Risk	Complete – publications updated.
Health and Social Care Integration	(b) AGREED to receive an update report in January 2019.	Health and Social Care Integration	Chief Officer H&SC Integration	Complete - Scrutiny Review Programme scheduled for presentation to A&SC 24 September 2018

7 June 2018				
Scrutiny Review Programme	(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.	Chief Executive	Chief Executive	Complete - Scrutiny Review Programme scheduled for presentation to A&SC 24 September 2018.
25 June 2018				
Draft Reports and Accounts 2017/18	(b) AGREED to:- (i) support their submission for review by the External Auditors, Audit Scotland for Scottish Borders Council, Scottish Borders Council Pension Fund, Common Good and Trust Funds Accounts; and (ii) support submission for review by KPMG who continued to provide the external audit of the Council subsidiaries SB Cares, SB Supports and Bridge Homes which were not Registered Charities.	Finance	Chief Financial Officer	Complete Final audited reports and accounts 2017/18 scheduled for presentation to A&SC 24 September 2018.
National Performance Reports by Audit Scotland	(b) AGREED the proposed schedule for presentation of the National Performance Reports by Audit Scotland.	Finance	Chief Financial Officer	"2016/17 audit of Dundee City Council: Report of a significant fraud" March 2018 scheduled for presentation to A&SC 24 September 2018.
		Assets & Infrastructure	Service Director Assets and Infrastructure	"2016/17 audit of The City of Edinburgh Council: Report on Edinburgh Schools" April 2018 scheduled for presentation to A&SC 27 November 2018.
Progress on Implementation of Internal Audit Recommendations	(b) AGREED that appropriate officers would be asked to attend the next meeting of the Committee to address one outstanding recommendation relating to Fleet Management workforce plan and two outstanding recommendations relating to Roads Management and Flood Risk and Coastal Management.	Assets & Infrastructure	Service Director Assets and Infrastructure	Chief Officer Roads to provide update on progress to A&SC on 24 September 2018.
Audit and Scrutiny Committee Annual Report 2017/18 and Annual	(b) AGREED that:- (i) the Audit and Scrutiny Committee Annual Report 2017/18 be presented to Scottish Borders Council and published on the SBC website; and	Audit & Risk	Chief Officer Audit & Risk	Complete

Self-Evaluation	(ii) that a report be presented to Council in August 2018 requesting that a Selection Committee be convened to progress external appointments to the Audit and Scrutiny Committee.			Complete
23 August 2018				
Welfare Benefits Service Changes Petition	AGREED: (a) that the service provision for welfare benefits claimants continue to be monitored on a regular basis, including seeking the views of clients on the service being provided; (b) that consultation, including with service users, be carried out prior to any future changes to service provision; (c) that communications be developed on how the service worked and could be accessed to try to address some of the misconceptions around claiming for benefits; (d) the Service Director Customer & Communities would work with Border Care Service to agree on the criteria for key performance indicators; and (e) the Service Director Customer & Communities would review the requests within the petition and provide a briefing note to the Audit & Scrutiny Committee and the petitioner on what could be put in place.	Customer & Communities	Service Director Customer & Communities	
Broadband Improvements Review	AGREED to undertake the review of the Digital Scotland Superfast Broadband Programme in the Scottish Borders, including its outcomes.	Economic Development	Executive Director and Chief Officer Economic Development	Complete – agreed the process and timeline at 3 September 2018 meeting
Delivery of the IT Strategy and Plan within Scottish Borders	AGREED (b) that Members would check the private report on the ICT Review which had been considered by Council in March 2016 and send any questions to the Chief Financial Officer and Service Director Customer and Communities in advance of another meeting of Audit and Scrutiny which would consider further the delivery of the Council's IT Strategy and Plan.			
Urgent Business	AGREED that a special meeting of Audit and Scrutiny Committee to consider the Call-in would be held on 31 August 2018, depending on Officer/Member availability.	Democratic Services	Clerk to the Council	Complete – meeting held on 3 September 2018 to conduct this business

3 September 2018

Call-In: Monitoring General Fund Revenue Budget 2018/19	# (b) AGREED to recommend to the Executive Committee: (i) that all Elected Member be encouraged to approach the Chief Executive or member of the Corporate Management Team to seek further explanation or clarification for any matter contained within a financial monitoring, or any other, committee report; (ii) that a further Members briefing session be held on financial planning, monitoring and terminology, to ensure Members had an understanding of the processes involved; and (ii) to request the Chief Executive and Chief Financial Officer to investigate any changes which could be made in mechanisms used for virements.	Finance	Chief Financial Officer	
Broadband Improvements Review	AGREED the process and timeline for the Broadband Improvements Review.	Economic Development	Executive Director and Chief Officer Economic Development	Scrutiny Review Programme scheduled for presentation to A&SC 24 September 2018.

ANNUAL TREASURY MANAGEMENT REPORT 2017/18

Report by Chief Financial Officer AUDIT & SCRUTINY COMMITTEE

24 September 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the annual treasury management activities undertaken during the 2017/18 financial year.**
- 1.2 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) requires an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlights the Council's treasury activity undertaken in the year ended 31 March 2018 and the performance of the Treasury function.
- 1.3 Appendix 1 is the annual report of treasury management activities for 2017/18 and contains an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported are based on the revised indicators agreed as part of the mid-year report approved on 21 December 2017.
- 1.4 The Appendix shows the Council's borrowing requirement to fund the capital investment undertaken during 2017/18, how much the Council actually borrowed against the sums budgeted and the level of external debt within approved limits.
- 1.5 During the year the Council has again, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, the Council did undertake short term borrowing for cash flow purposes and additional long term borrowing for capital purposes during the year, amounting to £5m and £10m respectively.
- 1.6 Treasury management activity for the year has been undertaken in compliance with approved policy and the Code. The Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2018.

2 STATUS OF REPORT

- 2.1 Due to competing deadlines, this report is being issued for consultation and publication on the Council agenda prior to its presentation to the Audit and Scrutiny Committee on 24 September 2018. Comments received from this Committee will be highlighted to Council at this meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the members note that treasury management activity in the year to 31 March 2018 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this report and in Appendix 1.**

4 BACKGROUND

- 4.1 The Council approved the Treasury Management Strategy (the Strategy) for 2017/18 at the Council meeting on 9 February 2017. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 The Council received a mid-year report on 21 December 2017 and approved the revised Prudential and Treasury Management Indicators for 2017/18 following the updating of assumptions, in particular capital expenditure estimates.
- 4.3 As set out in the Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Annual and Mid-Year Reports before submission to Council for final approval.

5 ANNUAL TREASURY MANAGEMENT REPORT TO 31 MARCH 2018

- 5.1 The Annual Treasury Management Report for 2017/18 is shown in Appendix 1.
- 5.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2017/18, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.
- 5.3 In addition, Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators. All of the 2017/18 target indicators reported are based on the revised indicators agreed as part of the mid-year report on 21 December 2017.
- 5.4 The key Prudential Indicators (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year to 31 March 2018, with comparators, are as follows:

	2017/18 Actual £m	2017/18 Estimate £m	Variance £m
Actual Capital Expenditure (PI-1)	36.0	56.7	(20.7)
Total Capital Financing Requirement (CFR) (PI-2)**	306.9	301.2	5.7
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(47.6)	(25.1)	(22.5)

**Revised estimate, approved by Council 21 December 2017 as part of the mid-year report*

*** The CFR for this calculation is based on expenditure to 31 March 2018 only*

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

(a) **PI-2 Total Capital Financing Requirement**

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

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

The reason for the decrease in the level of under-borrowing, compared to that projected is due to the actual level of capital expenditure for 2017/18 being less than the projected value in the mid-year report.

(c) **Investments**

Investments held on 31 March 2018 amounted to £7.6m. This increased slightly from £6.1m at 31 March 2017 due to temporary borrowing undertaken at the year-end to ensure cash was available to pay liabilities due but not physically paid until April.

5.5 Treasury management activity for the year has been undertaken in compliance with the approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2018

6 IMPLICATIONS

6.1 Financial

There are no further financial implications relating to this report. The outcomes from the Council’s treasury management activities are explained in detail within Appendix 1.

6.2 Risk and Mitigations

This report is an account of the outcomes arising from the tightly controlled risk management work that the Council’s Treasury staff have carried out. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

6.3 Equalities

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

6.4 Acting Sustainably

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

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 to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

7.1 The Service Director Regulatory Services as Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are being consulted and their comments will be made available at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Scottish Borders Council 09 February 2017

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

Contact us at Pension and Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 824000. email: treasuryteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

**ANNUAL TREASURY MANAGEMENT REPORT
YEAR TO 31 MARCH 2018**

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1. EXECUTIVE SUMMARY

1.1 This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

This paper highlights activity in relation to the treasury management function during 2017/18, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2017/18 was funded. The investment strategy for 2017/18 is summarised in Section 5 and Members are provided with details of how well the treasury function has performed in relation to a set of standard performance indicators.

1.2 During 2017/18, the Council complied with its legislative and regulatory requirements.

1.3 Key Prudential (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1	2017/18 Actual £m	2017/18 Estimate £m	Variance £m
Actual Capital Expenditure (PI-1)*	36.0	56.71	(20.7)
Total Capital Financing Requirement (CFR) ** (PI-2)	306.9	301.2	5.7
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(47.6)	(25.1)	(22.5)

* Revised estimate, approved by Scottish Borders Council on 21 December 2018 as part of the Mid Year Treasury report 2017/18

** The CFR for this calculation includes current capital expenditure to 31 March 2018

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

1.4 Additional borrowing for capital purposes was undertaken during 2017/18 amounting to £6m. The statutory borrowing limit (the authorised limit) was not breached.

1.5 The economic environment during the 2017/18 financial year continued to remain challenging, with low investment returns.

2. COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2017/18

2.1 CAPITAL EXPENDITURE (*Prudential Indicator 1*)

- a) The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need, or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) The final capital expenditure for 2017/18 was lower than projected as a result of delays in expenditure on a number of projects, including Early Learning and Childcare block expenditure (£2.1m), Hawick regeneration £2.5m, Central Borders Business Park £2.5m, Waste Transfers station £5.2m, Asset rationalisation £1.1m Roads & transport £1.5m and ICT transformation £2.0m.

The specific drivers for each of the movements have been disclosed in the regular monitoring reports to the Executive throughout 2017/18 and in the out-turn report presented on 19 June 2018.

2.2 FINANCING THE CAPITAL PROGRAMME

- a) Capital Expenditure may either be financed:
- (i) Immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which does not impact on the Council's borrowing need, or
 - (ii) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) **Table 3** below summarises the main funding elements of the 2017/18 capital expenditure.

Table 3	2017/18 Actual £m	2017/18 Estimate £m	Variance £m
Capital Expenditure	36.0	56.7	(20.7)
Other Relevant Expenditure *	0.0	0.4	(0.4)
Total Expenditure	36.0	57.1	(21.1)
Financed by:			
Capital Grants & Other Contributions	22.4	28.7	6.3
SBC Revenue Funding	0.8	0.4	(0.4)
Capital Fund/Capital Receipts	0.4	1.9	1.5
Plant & Vehicle Fund	1.1	1.3	0.2
Total identified finance	24.7	32.3	7.6
Net Financing Need for the Year	11.3	24.8	(13.5)

The decrease in unfinanced capital expenditure compared with the estimate in the mid-year report resulted principally from timing movements as detailed in paragraph 2.1 b).

2.3 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT (*Prudential Indicators 2 and 5*)

- a) The Council's underlying need to borrow for capital expenditure is termed the **Capital Financing Requirement (CFR)** and is a key prudential indicator. The CFR results from the capital activity of the Council and the resources that have been used to pay for the capital spend. It represents the 2017/18 unfinanced capital expenditure (see **Table 3** in section 2.2 (b)), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- b) Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Public Works Loan Board or the money markets, or utilising cash resources within the Council.
- c) **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the scheduled debt amortisation for loans repayment, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the scheduled debt amortisation for loans repayment.

The Council's borrowing activity is constrained by prudential indicators, including those comparing gross borrowing, the CFR and the authorised limit.

- d) The extent to which the Council is under/over borrowed at 31 March 2018 is calculated by comparing actual external debt against the CFR and is shown in **Table 4** below. It includes "Other long term liabilities", such as PFI and leasing schemes on the balance sheet. These increase the Council's borrowing need, however, as no borrowing is actually required against these schemes, these amounts have been deducted in **Table 4**.

Table 4	31 March 2018 Actual £m	31 March 2018 Estimate £m	Variance £m
CFR (PI-2)*	306.9	301.2	5.7
Less: Other long term liabilities **	73.0	72.9	0.1
Underlying borrowing requirement	233.9	228.3	5.6
External Borrowing at 31/3/18	198.2	198.3	0.1
(Under)/Over borrowing	(35.7)	(30.0)	5.7

*The CFR for this calculation includes current capital expenditure to 31 March 2018

**PPP/PFI/Finance Lease balances

TREASURY MANAGEMENT ACTIVITY

3.1 GROSS BORROWING AND THE CFR (*Prudential Indicator 6*)

- a) In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the current year (2017/18) plus the estimates of any additional capital financing requirement for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 5	31 March 2018 Actual £m	31 March 2018 Estimate £m	Variance £m
Fixed rate funding			
PWLB	149.7	154.9	(5.2)
Market	5.0	-	5.0
Variable rate funding			
Market *	43.6	43.4	0.2
External Borrowing	198.3	198.3	0.0
Other long term liabilities **	73.0	72.9	0.1
Total Debt	271.3	271.2	0.1
CFR (inc. next 2 year estimates)	316.2	296.3	19.9
(Under)/Over Gross Borrowing against the CFR (PI-6)	(44.9)	(25.1)	19.8

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

** PPP/PFI/Finance Lease balances

- b) Council deposits were made on a short term basis throughout 2017/18.
- c) There was no rescheduling of debt during 2017/18. Additional long term (PWLB) borrowing of £10m was undertaken in 2017/18 as well as short term borrowing on £5m towards the year end, which was repaid in full during April 2018.

3.2 OPERATIONAL BOUNDARY AND AUTHORISED LIMIT *(Prudential Indicators 7 and 8)*

- a) The **Operational Boundary** and the **Authorised Limit** are indicators which are intended to act as limits to the overall level of borrowing activity. The Authorised Limit represents the maximum limit beyond which borrowing is prohibited. The Operational Boundary represents the level of external borrowing that the Council is expected to operate within. **Table 6** compares the External Debt position with these indicators and demonstrates that the Council has not breached either limit during 2017/18

Table 6	31 March 2018 Actual £m	Authorised Limit (PI-8) £m	Variance £m	Operational Boundary (PI-7) £m	Variance £m
Total Gross Borrowing	271.3	358.7	(87.4)	298.4	(27.1)

3.3 MATURITY PROFILE OF EXTERNAL DEBT

- a) **Table 7** presents an analysis the maturity structure of the Council's external debt portfolio.

Table 7	31 March 2018 £m
Under 12 months	5.0
12 months and within 5 years	12.8
5 years and within 10 years	26.1
Over 10 years	154.4
Total	198.3

4. INTEREST RATE MOVEMENTS AND EXPECTATIONS

4.1 TREASURY STRATEGY FOR 2017/18

- a) The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.20. (Please check your own TMSS report as the above comment comes from our LAS interest rate forecasts of 15.11.16.) There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- b) During 2017/18 there was major volatility in PWLB rates with little consistent trend for the 25 and 50 year rates. However, shorter rates were on a rising trend during the second half of the year and reached a peak in February/March.
- c) The comparison of the annual *average* percentage interest rates to projections within the 2017/18 strategy is set out in **Table 8** below.

Table 8	Bank Rate %	PWLB Rates %		
		5 year	25 year	50 year
2017/18 Estimate	0.25	1.70	3.00	2.80
2017/18 Actual	0.38	1.80	2.60	2.65
Variance	0.13	0.10	0.40	0.15

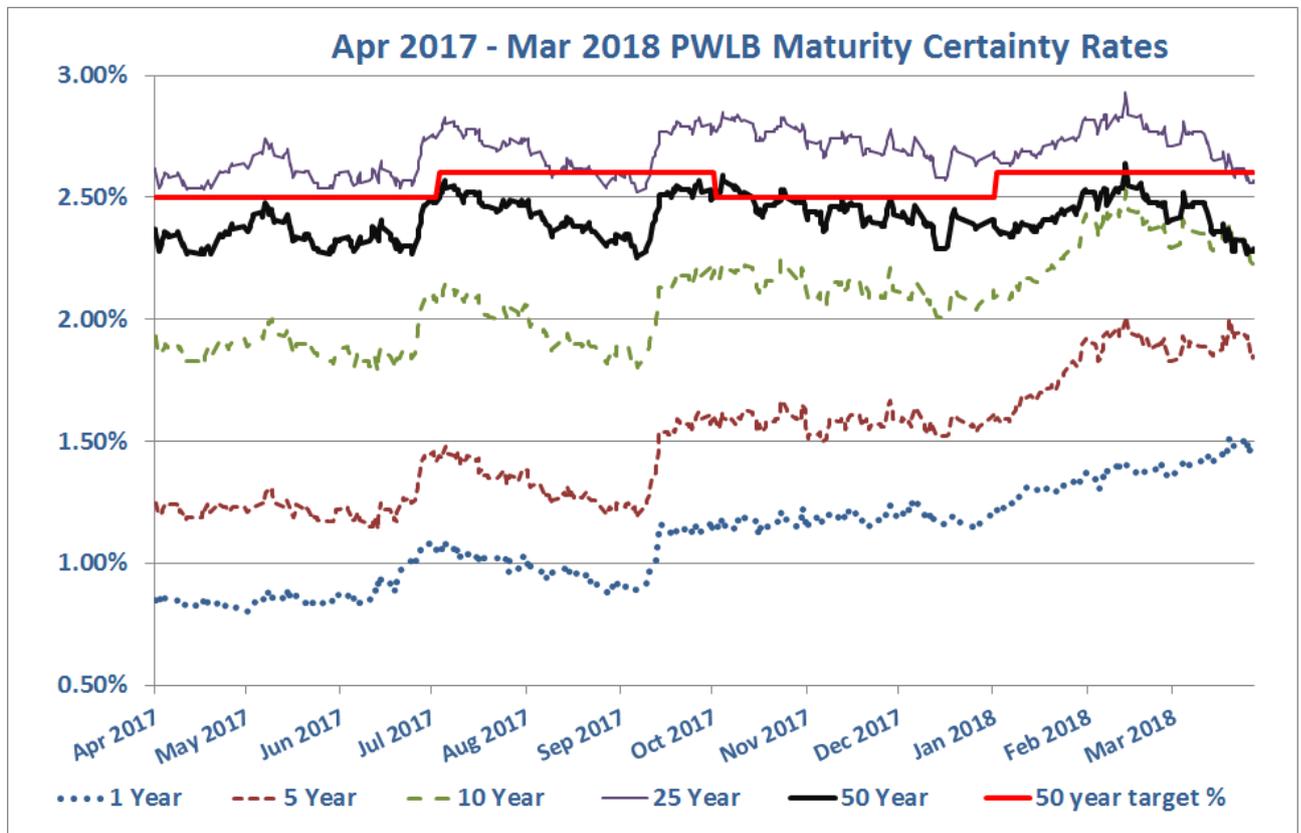
4.2 THE ECONOMY AND INTEREST RATES – 2017/18

- a) During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn rose significantly that the MPC would imminently raise the Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise base rate very soon. The 2 November MPC quarterly Inflation Report meeting duly raised the Bank Rate from 0.25% to 0.50%.
- b) The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.
- c) Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

4.3 BORROWING RATES IN 2016/17

a) PWLB Borrowing Rates

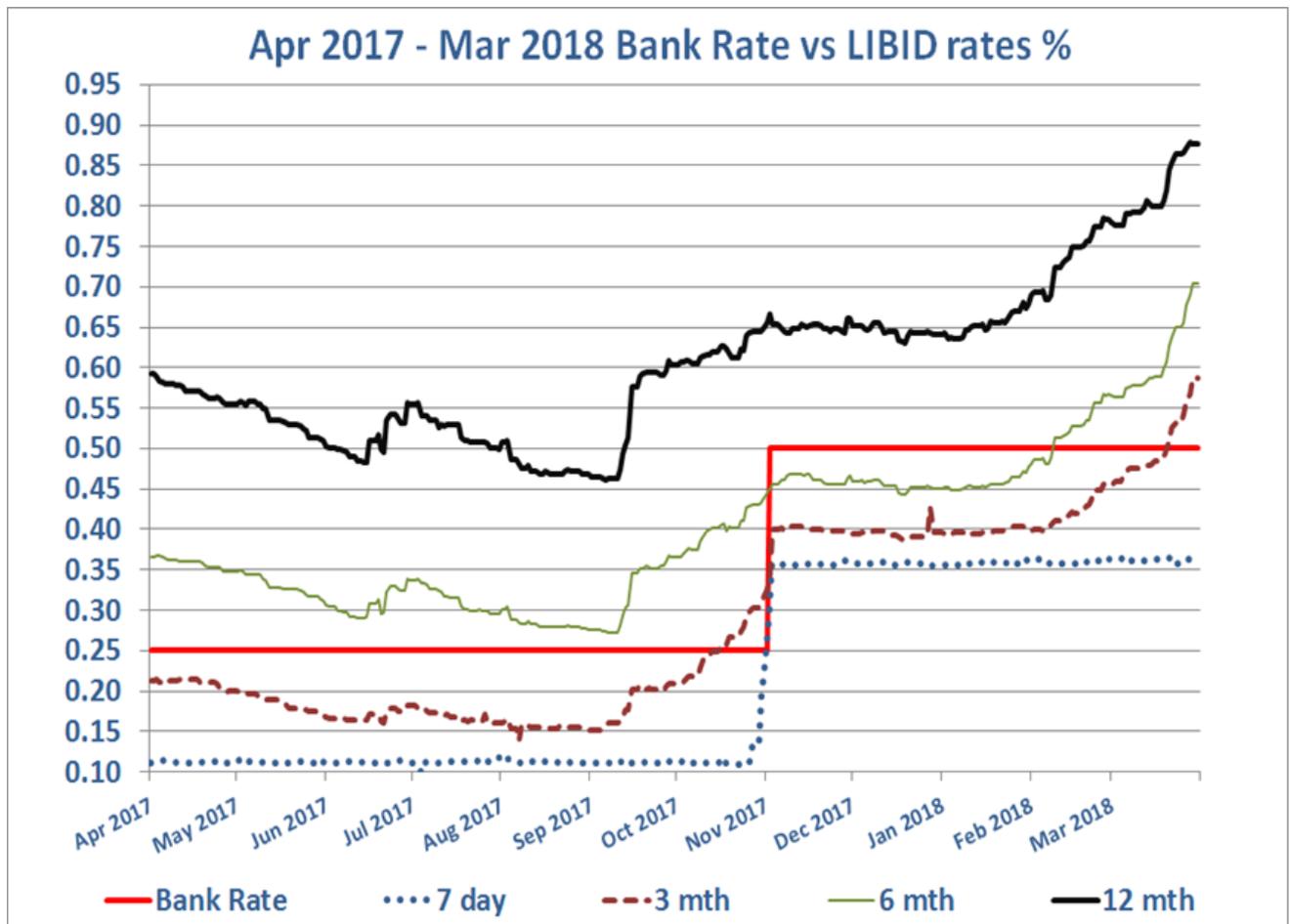
Chart 1 below shows how PWLB certainty rates have fallen to historically very low levels during the year.



4.4 INVESTMENT RATES IN 2016/17

- a) Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.

- b) **Chart 2** below illustrates the change in the Investment Rates certainty maturity rates, for a selection of maturity periods, throughout 2017/18.



5. INVESTMENT STRATEGY FOR 2016/17

5.1 INVESTMENT OBJECTIVES

- a) The Council's investment strategy is governed by Scottish Government investment regulations and sets out the approach for choosing investment categories and counterparties, based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- c) The **primary objectives** of the Council's investment strategy are:
- (i) the safeguarding or **security** of the repayment of the principal and interest of investments on a timely basis;
 - (ii) ensuring adequate **liquidity** within the Council; and
 - (iii) maximising investment **yield** or return.

- c) The Council will ensure:
 - (i) It maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and the monitoring of their security; and
 - (ii) It has sufficient liquidity in its investments. For this purpose it sets out procedures for determining the maximum periods for which funds may prudently be committed. The Council's Prudential Indicators cover the maximum period over which sums can be invested.

5.2 INVESTMENT ACTIVITY

- a) The investment activity during the year conformed to the above approved strategy, and the Council had no liquidity difficulties. All money deposited with the Council's bank, Bank of Scotland, was done on an overnight basis to minimise security and liquidity risk to the Council.

5.3 CURRENT INVESTMENT POSITION

- a) The total value of investments/deposits for the Council at 31 March 2018 was £7.6m. Cash was held on a short term basis throughout 2017/18 with major banks and various money market funds (the latter having a credit rating of AAA).

6 TREASURY PERFORMANCE INDICATORS

The Treasury Management Function has established the following additional performance indicators.

6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

- a) **Average 'Pool Rate'** charged by the Loans Fund compared to Scottish Local Authority average Pool Rate. Target is to be at or below the Scottish Average for 2017/18.

The Council's loans fund pool rate for 2017/18 was 3.97%. The Scottish Local Authority average "pool rate" for 2017/18 is not yet available at the time of writing, but was 4.44% in 2016/17 and is not expected to be materially different for 2017/18.

- b) **Average rate movement year on year.** Target is to maintain or reduce the average borrowing rate for the Council versus 2016/17. The Council's pool rate of 3.97% for 2017/18 was 0.35% lower than the reported Council's rate of 2016/17.

6.2 INVESTMENT PERFORMANCE INDICATORS

a) Security

- (i) The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default.
- (ii) During 2017/18, money was deposited in accounts on a short term basis, not exceeding 3 months.
- (iii) In September 2017 Moody's altered their long term rating on Bank of Scotland upgrading it by one step from A1 to Aa3. July 2016. This was in line with Bank of

Scotland parent company Llyods Bank PLC. This is one step up from the minimum counter party grading accepted by the Council per the Treasury Management Strategy. This position is being closely monitored.

b) Liquidity

- (i) Liquid short term deposits should be at least £3,000,000, available with a week's notice.
- (ii) This indicator was adhered to in 2017/18
- (iii) Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.00 years**.
- (iv) The weighted **average life for 2017/18 was 0.01 years**, well below the 0.5 year target.

c) Yield

The target yield is to have internal returns on cash investment above the 7 day LIBID rate. The return for 2017/18 averaged 0.26%, compared against an average 7 day LIBID rate for the year to 31 March 2018 of 0.22%.

2016/17 comparison figures for average internal returns and 7 day LIBID were 0.31% and 0.20% respectively. Therefore, 2017/18 returns showed a continued return in excess of target albeit a falling return from prior years. This is in line with falling Money Market Funds rates.

Although yields remain low, the Council continues to make deposits on a short term basis with the Government's Debt Management Office (DMO) and Money Market Funds. The DMO is a very secure (Credit Rating of AAA) form of investment, but delivers a low rate of return (rising to 0.25% from 0.1% in 2017/18). The Money Market Funds used for deposits are also secure (with a Credit Rating of AAA). The planned deposit allocation between these two investment types has resulted in the returns mentioned above.

6.3 IMPACT ON REVENUE BUDGET

a) Ratio of actual financing costs to net revenue stream (Prudential Indicator 3)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue funding for the Council. The comparison of the revised estimate approved in the 2017/18 mid year report to the outturn as at 31 March 2018 is as follows:

Table 9	Actual	Estimate
Ratio of financing costs to net revenue stream (PI-3)	% 9.0	% 8.9

b) Net Cost of Servicing Debt (Loan Charges) – Table 10 below summarises the comparison of the outturn versus estimate for the revenue cost of servicing the debt for the Council, including interest relating to PPP schools unitary charges.

Table 10	2017/18 Outturn £m	2017/18 Mid-Year Estimate £m	Variance (Under) /Over £m
Interest on Borrowing	12.9	13.3	(0.4)
Investment Income	(0.3)	(0.3)	-
Capital Repayments	8.3	8.3	-
Total Loan Charges	20.9	21.3	(0.4)

- (i) The interest on borrowing costs represents the interest paid on external debt and to internally managed funds (e.g. Pension Fund, Common Good Funds).

6.4 TREASURY MANAGEMENT INDICATORS (*Treasury Indicators 1 – 5*)

- a) The Treasury Indicators (TIs) are shown in **Table 11** below. The Council remained well within these Indicator limits throughout 2016/17

Table 11	2017/18 Revised Indicator		2017/18 Actual as at 31 March 2018
Upper limits – Debt with fixed and variable interest rates			
Upper limits on fixed interest rates (<i>TI-1</i>)	289.5		298.4
Upper limits on variable interest rates (<i>TI-2</i>)	101.3		104.4
Maturity Structure of borrowing			
	Upper (<i>TI-3</i>)	Lower (<i>TI-4</i>)	Actual
Under 12 months	20%	0%	2.54%
12 months to 2 years	20%	0%	0.00%
2 years to 5 years	20%	0%	6.47%
5 years to 10 years	20%	0%	13.19%
10 years and above	100%	20%	77.80%
Prudential limits for principal sums invested (<i>TI-5</i>)			
Cash Deposits < 12 months	100%		100%
Cash Deposits > 12 months	20%		0%

ANNEX A

Indicator Reference	Indicator	Page Ref.	2017/18 Original estimate	2017/18 Revised estimate	2017/18 Actual
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure (£m)	3	42.2	56.7	36.0
PI-2	Capital Financing Requirement (£m) (CFR)	6	293.1	301.2	306.9
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	16	9.0%	8.9%	9.0%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	N/A	(0.02)	(0.04)	
External Debt Indicators					
PI-5	Actual Debt (£m)	8	265.4	271.2	268.6
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	9	285.0	289.5	298.4
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	9	212.1	216.5	228.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	9	343.6	348.0	358.7
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	9	270.6	275.0	288.4
Indicators of Prudence					
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	8	(25.8)	(25.1)	(47.6)
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	16	285.0	289.5	298.4
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	16	99.8	101.3	104.5
TI-3 & TI-4	Maturity Structure of Fixed Interest Rate Borrowing	16	Upper	Lower	
	Under 12 months		20%	0%	
	12 months to 2 years		20%	0%	
	2 years to 5 years		20%	0%	
	5 years to 10 years		20%	0%	
	10 years and above		100%	20%	
TI-5	Maximum Principal Sum invested greater than 364 days	16	20%	20%	20%

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

24th September 2017

Dear Audit and Scrutiny Committee Members,

Scottish Borders Council Pension Fund Audit of 2017/18 annual report and accounts

Independent auditor's report

1. Our audit work on the 2017/18 annual accounts is now substantially complete. Subject to the satisfactory conclusion of outstanding matters and receipt of a revised set of annual report and accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 28th September 2018 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit and Scrutiny Committee's consideration, our draft annual audit report on the 2017/18 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. There were no unadjusted misstatements.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the annual accounts; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Chief Financial Officer

7. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual report and accounts prior to the independent auditor's report being certified.

Gillian Woolman MA FCA CPFA

Audit Scotland
102 West Port
Edinburgh
EH3 9DN

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the annual report and accounts

Opinion on financial statements

I certify that I have audited the annual accounts in the annual report and annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Fund Account, the Net Assets Statement and notes to the statement of accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the annual accounts is not appropriate; or
- the Chief Financial Officer has not disclosed in the annual accounts any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Financial Officer and the Scottish Borders Council Audit and Scrutiny Committee for the annual accounts

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

In preparing the annual accounts, the Chief Financial Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Audit and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the annual accounts

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

A further description of the auditor's responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

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

In connection with my audit of the annual accounts, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion matters prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been

prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and

- the information given in the Governance Compliance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the annual accounts are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2018

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Gillian,

Scottish Borders Council Pension Fund Annual Accounts 2017/18

1. This representation letter is provided about your audit of the annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the annual accounts give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Scottish Borders Council Pension Fund's annual accounts for the year ended 31 March 2018.

General

3. I have fulfilled my statutory responsibilities for the preparation of the 2017/18 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scottish Borders Council Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I am not aware of any uncorrected misstatements.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (2017/18 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the annual accounts give a true and fair view of the financial position of the Scottish Borders Council Pension Fund at 31 March 2018 and the transactions for 2017/18.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the accounts. The accounting policies are determined by the 2017/18 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies

applied are appropriate to Scottish Borders Council Pension Fund circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Scottish Borders Council Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scottish Borders Council Pension Fund's ability to continue as a going concern.

Assets

Investments

10. For the year ended 31 March 2018, the amounts included in the Net Assets Statement reflects investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2018. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Banking and Cash Flow Arrangements

11. Scottish Borders Council Pension Fund maintains separate bank accounts and while these accounts form part of Scottish Borders Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

12. On realisation in the ordinary course of the Funds' business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

13. All liabilities at 31 March 2018 of which I am aware have been recognised in the annual accounts.
14. The pension assumptions made by the actuary in the IAS 26 report for Scottish Borders Council Pension Fund have been considered and I confirm that they are consistent with management's own view.

15. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

16. There are no contingent liabilities for Scottish Borders Council Pension Fund.

Fraud

17. I have provided you with all information in relation to:
- my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

18. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

19. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all the Scottish Borders Council Pension Fund's related parties and all the related party relationships and transactions of which I am aware.

Management commentary

20. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

21. I confirm that the Scottish Borders Council Pension Fund has undertaken a review of the system of internal control during 2017/18 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
22. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2018, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

23. All events subsequent to 31 March 2018 for which the 2017/18 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

David Robertson
Chief Financial Officer

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Scottish Borders Council Pension Fund

2017/18 Annual Audit Report



 AUDIT SCOTLAND

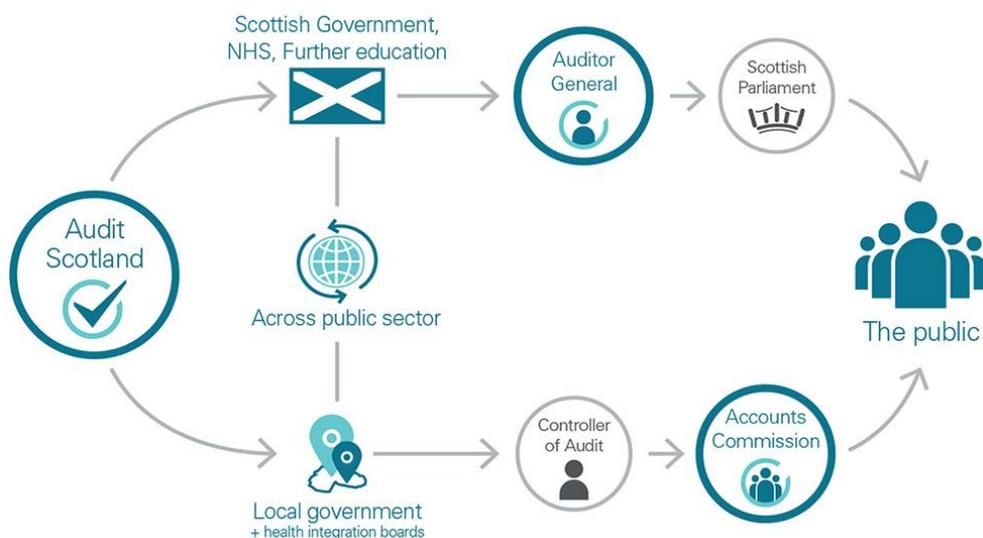
To Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund
and the Controller of Audit

September 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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Key messages

2017/18 annual report and accounts

- 1 In our opinion Scottish Borders Council Pension Fund's (the 'Fund') annual report and accounts give a true and fair view and were properly prepared.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements.

Financial management

- 3 The Fund has satisfactory arrangements in place for financial management. This includes comprehensive reporting of investment performance.
- 4 2017/18 saw positive investment returns of 5.6%, following the exceptional returns of 21.5% observed in 2016/17. The Fund is taking steps to reduce exposure to volatile equity investments and diversify into income generating inflation-linked assets by revising their investment strategy. This has resulted in significant one-off transaction costs in 2017/18.

Financial sustainability

- 5 The Fund's 2017 Triennial valuation shows a funding level of 114%, the highest in Scotland, an increase from 101% in 2014. This allows the main pool of employing bodies to maintain their employer contribution rate at 18%.
- 6 The continued increase in the Fund's pensioner membership will make funding future pension payments increasingly challenging. Cash flow projections show that the Fund will continue to rely on investment income to pay pensions. Management are taking measures to increase income from investments to ease cashflow pressures.

Governance and transparency

- 7 The Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Fund Committee.
- 8 A dedicated externally hosted website went live during 2017/18 for the Fund, making available a wide range of important information relevant to members of the Fund.

Best Value

- 9 The Fund's investment performance is subject to regular review and scrutiny by the Fund's Investment Sub-Committee, which reports to the Pension Fund Committee.
- 10 There are satisfactory arrangements in place for monitoring investment performance and scrutinising investment management.

Introduction

1. This report is a summary of our findings arising from the 2017/18 audit of Scottish Borders Council Pension Fund (the 'Fund').
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit and Scrutiny Committee. This report comprises:
 - an audit of the Fund's annual report and accounts
 - consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the Fund's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of the four audit dimensions
 - a review of the Fund's main financial systems.
4. Scottish Borders Council (the 'Council') is the administering authority for the Scottish Borders Council Pension Fund. The Council delegates this responsibility to the Pension Fund Committee (the 'Committee'). The Pension Fund Board (the 'Board') is responsible for establishing arrangements to ensuring the proper conduct of the affairs of the Fund in accordance with the law and the requirements of the Pensions Regulator.

5. The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Council's Audit and Scrutiny Committee is required to review the effectiveness of internal control arrangements and recommending the annual report and accounts are approved by the Council.
6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supporting guidance, and are guided by the auditing profession's ethical guidance.
7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Fund's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability.
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £19,990 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to the Scottish Borders Council Pension Fund by providing insight and foresight, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.
13. This report is addressed to both the members of the Scottish Borders Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion Scottish Borders Council Pension Fund's annual report and accounts give a true and fair view and were properly prepared.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements.

Unqualified audit opinions

15. The annual report and accounts for the year ended 31 March 2018 were approved by the Council on 25 September 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The Fund's annual report and accounts is the principal means by which the pension fund demonstrates effective stewardship and use of resources to its external stakeholders.

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 26 June 2018, in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

17. The use of Custodian accounting information was expected to improve the preparation of the accounts and provide an independent source of investment valuation information. Due to the complexity of Custodian accounting information, the working papers in this first year of use required the Custodian data to be analysed across the ledger's coding structure to ensure the ledger recorded the correct information. This was a significant task for management to undertake at year-end, resulting in a number of complex journals. Our substantive testing of significant transactions and balances identified no material issues.



Refer to Appendix 1, Recommendation 1.

Risks of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. We also include the wider dimension risks, how we addressed these and our conclusions in the appendix.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and was based on the audited 2016/17 annual report and accounts. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

21. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations. Performance materiality was revised downward from 70% (£1.5m) to 60% (£1.3m) to take account of issues experienced following the implementation of Business World, the Council's new ERP system which replaced the Ledger, HR, Payroll and Procurement systems on 1 April 2017.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 10% of benefits payable and transfers out for the year ended 31 March 2018 based on the unaudited accounts.	£2.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of overall materiality.	£1.3 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements greater than the 'reporting threshold' amount. This has been calculated at 5% of overall materiality (with a maximum level of £100,000).	£100,000

Source: Audit Scotland

How we evaluate misstatements

22. It is our responsibility to request that all misstatements above the reporting threshold are corrected, although the final decision on this lies with those charged with governance.

23. There were no material adjustments to the financial statements arising from our audit.

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing 260 (UK & Ireland) requires us to communicate significant findings from the audit to those charged with governance. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

25. The findings include our views about significant qualitative aspects of the Fund's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

26. We identified that investment values provided by the Custodian did not use Fund Manager valuations as at 31 March 2018 for some assets. The valuations used were the best available at the time the Custodian accounting information was prepared. During the audit we compared Fund Manager valuations as at 31 March 2018 against the Custodian information and found that investments were understated by around £700k (1%) of approximately £70m of affected investments due to movements in the value of investments during the last quarter of financial year 2017/18. The accounts have not been adjusted to reflect this difference as management concluded that it was not material. We have not included this as an unadjusted error as it is an area of significant estimation and judgement. Although the difference in 2017/18 is not material, there is a risk that in future years there is a larger difference between the estimated and actual values.



Refer to Appendix 1, Recommendation 2.

27. We have no other significant findings to report under ISA 260.

Follow up of prior year recommendations

28. We have followed up recommendations previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward). In total, 3 agreed actions were raised in 2016/17. Of these, two have been fully implemented and one is partially actioned.

29. Overall the Fund has made good progress in implementing these actions. For the action not yet fully implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Other findings

30. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Pre-audit inspection and objections to the accounts

31. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. The notice for Scottish Borders Council Pension Fund was published on the Council's website for the inspection period and no objections were received to the Scottish Borders Council Pension Fund accounts.

Part 2

Financial management



Main judgements

The Fund has satisfactory arrangements in place for financial management. This includes detailed investment performance reporting.

2017/18 saw positive investment returns of 5.6%, following the exceptional returns of 21.5% observed in 2016/17.

Our testing of the financial controls over significant risk areas confirmed that controls relating to financial systems and procedures are largely operating effectively, with some scope for improvement.

Financial performance in 2017/18

32. Pension Fund finances are independently assessed every three years by the Funds appointed actuary. This assessment determines the employer contribution rates and any required deficit funding payments for the upcoming three-year period and takes account of the strength of employer covenants and the Fund's investment strategy.

33. The Fund's performance in 2017/18 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, liabilities, funding level and investment performance

Increase in net assets	Decrease in estimated liabilities	Funding level	Investment performance
£31 million (+4.7%)	£63 million (-6.9%)	114% 2017 Funding valuation	5.6% Return on investments 2017/18
£685 million Closing net assets	£844 million Closing liabilities	101% 2014 Funding valuation	8.6% Return on investments over 5 years

Source: 2017/18 Scottish Borders Council Pension Fund Annual Report and Accounts

34. The net assets of the Fund increased to £685m at 31 March 2018 from £654m at 31 March 2017. This increase of £31 million reflected the buoyant market conditions experienced by investors during the year. It was adversely impacted by significant one-off transaction costs related to new, less volatile, investments following a review of the investment strategy. In contrast 2016/17 saw an increase of £112m largely driven by returns in equity markets which was an exceptional year.

35. During 2017/18 contributions to the Fund amounted to some £19.4 million (2016/17: £18.4 million). This was less than the benefits paid out which totalled £21.5 million (2016/17: £20 million). This is the fifth year of benefits paid exceeding contributions into the Fund, signalling a maturing of the Fund.

36. In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of Pension Fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26 and calculated in line with IAS 19 assumptions. This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund does not take account of liabilities to pay pensions and other benefits in the future.

37. The actuarial present value of promised retirement benefits estimates the Fund's liabilities decreasing from £907 million at 31 March 2017 to £844 million at 31 March 2018 (£63 million decrease). It should be noted that not all Funds have liabilities assessed on the same prudential scales. The use of differing actuarial firms and assumptions creates difficulties in direct comparisons. It should also be noted that this valuation is an accounting estimate.

38. 2017/18 has been a demanding year for the Finance Team in the Council with the introduction of Business World and the subsequent restructuring of the finance function. This has placed a significant burden on key team members at certain times. It will be important to review capacity periodically to ensure it continues to meet the increasing demands of regulation and financial reporting in public sector pensions schemes. Management should continue to review financial capacity.

Financial management arrangements

39. The Chief Financial Officer for Scottish Borders Council is the proper officer responsible for Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Fund. We consider these to be comprehensive and promote good financial management.

40. Investment performance reports are submitted to the Pension Fund Committee on a quarterly basis, with administration performance reports submitted annually. Reports are comprehensive and well presented with sufficient narrative to describe issues to Councillors and other committee members. Through our attendance at the Pensions Committee we have observed adequate level of review and scrutiny by members. The Council has delivered training to members of the committee during the year including training on Financial markets and Investment Products, the role of the Fund Custodian, the general Pension Fund Regulatory Environment and the LGPS regulatory environment. It is important that Committee members undertake all given training to ensure knowledge and skills are kept current.

41. We have concluded that the financial management arrangements in place at Scottish Borders Council Pension Fund are sufficient to ensure the ongoing success of the Fund.

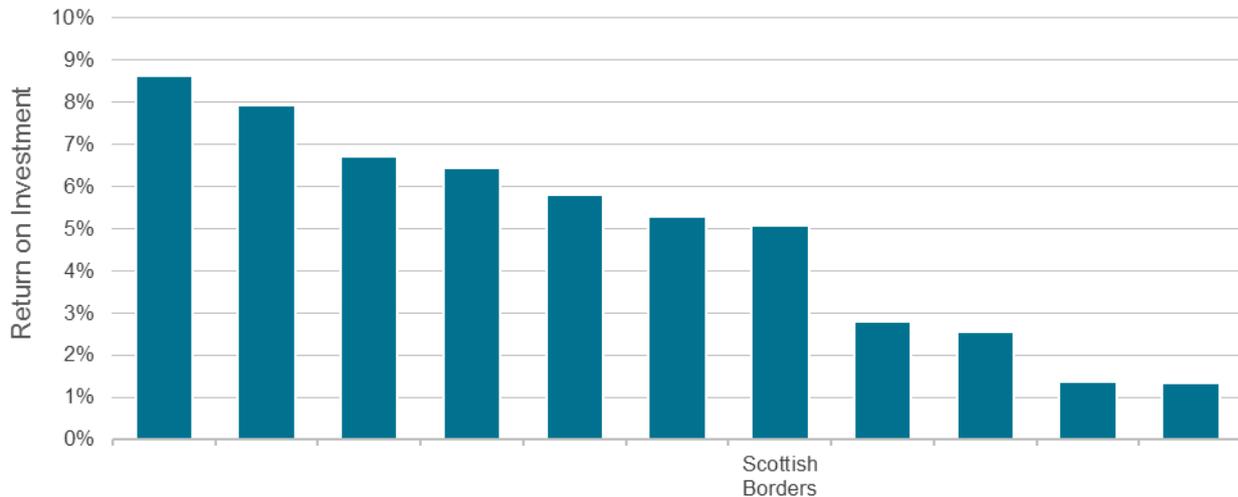
Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial outcomes

42. 2017/18 has been a positive year for investment performance for most Local Government Pension Schemes (LGPS) across Scotland as illustrated in [Exhibit 5](#).

Exhibit 5

LGPS pension funds – Net return on investment 2017/18 (unaudited figures)



Source: 2017/18 LGPS pension fund unaudited financial statements

43. In 2017/18 Scottish Borders Council Pension Fund achieved a return of 5.6% on its investments. This is 2.2% above the Fund's 2017/18 benchmark of 3.4%, with rolling three-year performance 1.4% above the benchmark of 7.2%.

44. We conclude that the Fund's overall performance is good. The Committee is taking advice from the Investment Consultant KPMG to diversify away from equity assets into income generating inflation-linked assets that are more resilient to the volatility of the equities markets, as well as provide cash to pay pensions.

Systems of internal control

45. Our objective is to gain assurance that the Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

46. During 2017/18 management implemented a process of 'Annual Fund Manager Review' whereby questionnaires are submitted to all Fund Managers querying their compliance with laws and professional standards, as well as probing to determine potential issues that may affect valuations. This provides assurance that Fund Managers are acting in accordance with laws and professional standards.

47. We noted that the existence of overseas pensioners is not verified on a periodic basis. There is a risk that pensions are paid to deceased persons resulting in a loss to the Fund. We recommend that management reinstate controls to validate overseas pensioners.



Refer to Appendix 1, Recommendation 3.

48. A key source of information of the Fund to stop pension payments when required is through use of the Council's 'Tell Us Once' notification service, whereby next of kin inform the Council to close the affairs of an individual. This information

is passed to the Pension Fund administration team to stop pension payments in a timely manner. We identified that, whilst the administration team receive these notifications, no record or log is kept to ensure that all notifications are actioned. We recommend that these notifications are kept and reviewed by management to ensure pension payments are stopped timeously as a result of these notifications.



Refer to Appendix 1, Recommendation 4.

49. In addition to the above, we identified that controls over the pension payroll such as the investigation of exception reporting were in place. However, there was no evidence of management review of the control. We recommend that procedures are put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained.



Refer to Appendix 1, Recommendation 5.

50. The Council implemented a new financial system, Business World, from April 2017. The introduction of the new system resulted in several issues with the operation of internal controls, including instances of records of changes to the system not being maintained and delays in the completion of bank reconciliations. This was reported in our interim report in June 2018. We concluded that we could not take assurance from some of the controls in operation. We modified our audit approach, and our testing did not identify material misstatements.

51. Our testing of the contribution rates within the pension administration system, Heywoods Altair, identified errors in contribution rate standing data in the system. No contributing members were affected by this error on this occasion, however it is important that all standing data is subject to timely review.



Refer to Appendix 1, Recommendation 6.

52. Overall, we are satisfied that controls are operating satisfactorily, but there is scope for improvement as detailed in the paragraphs above.

Part 3

Financial sustainability



Main judgement

The Fund's 2017 Triennial valuation shows a funding level of 114%, the highest in Scotland. This allows the main pool of employing bodies to maintain their employer contribution rate at 18%.

The continued increase in pensioners in the Fund's membership will make funding future pension payments increasingly challenging. Cash flow projections show that the Fund will continue to rely on investment income to pay pensions.

The Fund is taking steps to reduce exposure to volatile equity investments and diversify into income generating inflation-linked assets by revising their investment strategy.

Funding position and financial planning

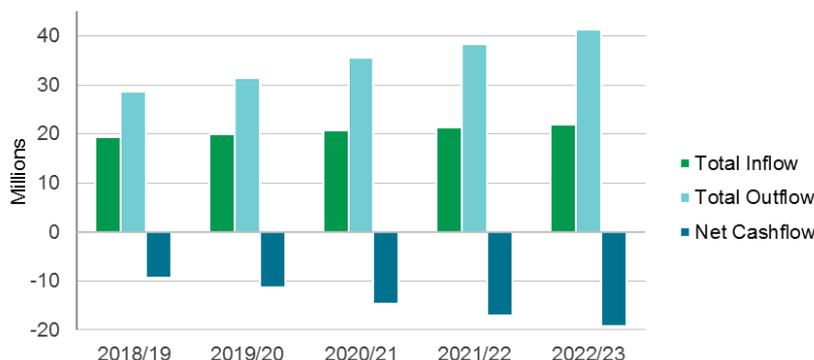
53. The March 2017 triennial valuation reports that the Fund assets were sufficient to meet 114% of its liabilities. The primary employer contribution rate was increased to 20.6%, however, on the actuary's advice, the Fund has utilised the over-funding to set the secondary rate at a level to maintain employer contributions at 18% for the next three years. Management reviewed and updated the Funding Strategy Statement which was presented to the June 2018 Pension Fund Committee meeting.

54. The Fund reported net withdrawals of £2.6m in 2017/18. Management actively monitors its cashflow and reports the position to the Pension Fund Committee. A 5-year cashflow forecast has recently been prepared by the investment consultant KPMG. This forecasts that negative cash flows will be an ongoing trend. The Fund recognises it will have to utilise some investment income to pay pensions for the foreseeable future. Cash flows are visualised in [Exhibit 6](#).

Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Exhibit 6

Analysis of cash flows by the independent investment consultant

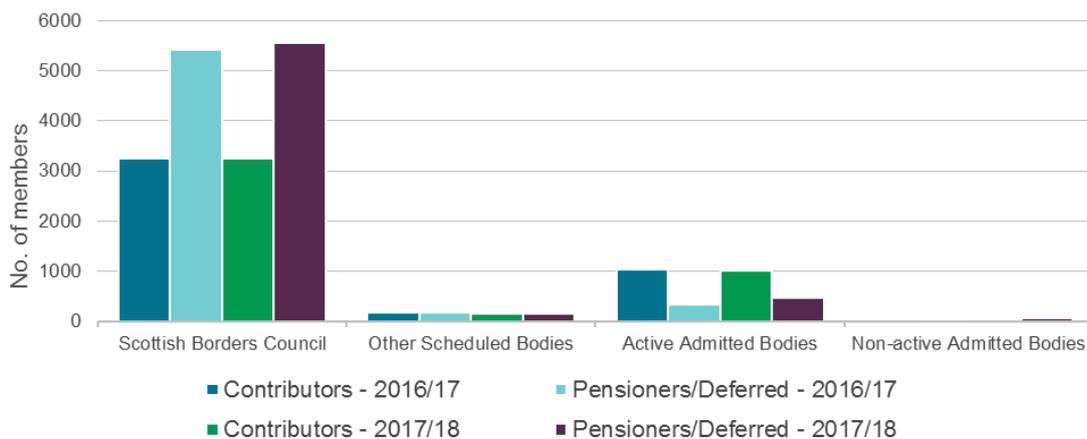


55. Management has considered the negative cash flow reality of the Fund and revised the Investment Strategy. This has resulted in a move away from growth generating assets such as equities to income generating and inflation-linked assets providing cash flows to the Fund to pay pensions.

Membership levels

56. The Fund is a multi-employer fund with 1 Local Authority, and 17 other employers. The proportion of pensioners relative to active contributing members further increased in 2017/18. The current membership profile is shown at [Exhibit 7](#).

Exhibit 7 Fund membership



Source: Scottish Borders Council Pension Fund 2017/18 audited financial statements

57. Membership of the Fund increased from 10,432 to 10,667 members at 31 March 2018; an increase in active members of 2.3%.

58. Members have a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each member's life. It is important that the Fund maintains the capacity to meet the current and future needs of its members.

Contributions

59. Following the latest triennial valuation in 2017, the Actuary agreed employer contribution rates with individual employers for 2018/19 onwards. The approximate split of all contributions received in year is set out at [Exhibit 8](#).

Exhibit 8 Contributions in 2017/18

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
Total contributions	13.3	0.7	5.3	19.3

Source: Scottish Borders Council Pension Fund 2017/18 audited financial statements

EU withdrawal

60. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

61. Management recognises the difficulty of planning for Brexit amid considerable uncertainty. In terms of the market implications for investment performance, the Fund is taking a diversified, balanced approach to mitigate against the risk. For example, reducing equity investment and increasing investment in infrastructure, which is not as tied to global events. Additionally, the Fund is diversified geographically with investment in overseas equities and other investments, reducing dependency on UK and EU investments. Management are aware of the currency fluctuation risk and are working with their investment consultant to determine ways to mitigate that risk.

Part 4

Governance and transparency



Main judgements

The Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Fund Committee.

A dedicated externally hosted website went live during 2017/18, making available a wide range of important information relevant to members of the Fund.

Decisions are transparent with committee papers and detailed minutes of meetings of the Pension Fund Committee available on the Scottish Borders Council's website.

Governance arrangements

62. Scottish Borders Council is the administering body of the Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the LGPS.

63. Members are provided with adequate training so that they are clear about their roles and responsibilities and are kept up to date on current issues so that they can scrutinise papers effectively.

64. We saw evidence of good quality information being made available to the committee by management and advisers, enabling challenge and scrutiny to be undertaken by members.

65. The Fund is supported by good governance arrangements including effective controls over the Council's systems upon which the Fund depends for financial reporting.

Transparency

66. Transparency means that the public, in particular pension fund members, have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using resources.

67. The Pension Fund Committee and Board meetings are held in public with commercially sensitive information dealt with in private sessions. Minutes of the public meetings are available on the Scottish Borders Council website.

68. Management procured a stand-alone website for the Fund which went live during 2017/18. This makes available a wide array of important information to members. A module will be added in future for members to run their own pension calculations.

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

69. Overall, we concluded that the Fund conducts its business in an open and transparent manner.

Other aspects of governance

70. We reviewed various other aspects of governance that apply to the Fund including standing orders, financial regulations and arrangements for reporting breaches of regulation to the Pensions Regulator.

71. Overall, we concluded that there are open and transparent governance arrangements in place.

Pensions Regulator Public Service Code

72. The Public Service Pension Act 2013 introduced new governance arrangements for LGPS pension funds and from 1 April 2015 funds were required to introduce local pension boards. The remit of the Board is to support the Pension Fund Committee in compliance with regulations and with requirements imposed by the Pension Regulator which includes the administration of the Fund and investments, as well as the responsibility for preparing, publishing and maintaining the funding strategy statement and the statement of investment policies.

73. There was one breach of the Code that required to be reported to the Pensions Regulator in 2017/18. The Fund was unable to issue all benefits statements to members by the deadline of 31 August 2017. This was reported to the Pension Regulator in a timely manner and no enforcement action was taken. The benefits statements were issued by 07 September 2017.

74. An important legal requirement of the Code concerns the knowledge and understanding by Pension Committee and Board members. We find that the Fund has good governance arrangements in place to assess the learning needs of members and to ensure good uptake of training.

Internal audit

75. Internal audit provides independent assurance on the Fund's overall risk management, internal control and corporate governance processes.

76. The internal audit function is carried out by Scottish Borders Council Internal Audit Service. We conducted a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

77. To avoid duplication of effort we use the work of internal audit wherever possible. In 2017/18 we used internal audit's work on the controls in place over Business World. We also considered internal audit report findings on Governance as part of our wider dimension work.

Management commentary, annual governance statement and governance compliance statement

78. The applicable legislation and regulations require pension funds to prepare and publish, along with their financial statements, a management commentary, an annual governance statement, and a governance compliance statement that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable.

79. Based on our knowledge and work performed, we concluded that the management commentary, the annual governance statement and the governance compliance statement are consistent with the financial statements.

Standards of conduct for prevention and detection of fraud and error

80. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption. These include a Code of Conduct for members and officers, a whistleblowing policy and an anti-fraud strategy.

81. We concluded that appropriate arrangements were in place for preventing and detecting fraud and corruption in 2017/18.

Cyber security

82. The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

83. As administering authority of the Fund, the Council has outsourced its ICT arrangements to CGI as part of a 13-year contract. Under this agreement, CGI are responsible for cyber security arrangements and the Council relies on their expertise in addressing cyber security risks.

Part 5

Best Value



Main judgements

The Fund's investment performance is subject to regular review and scrutiny by the Fund's Investment and Performance Sub-Committee.

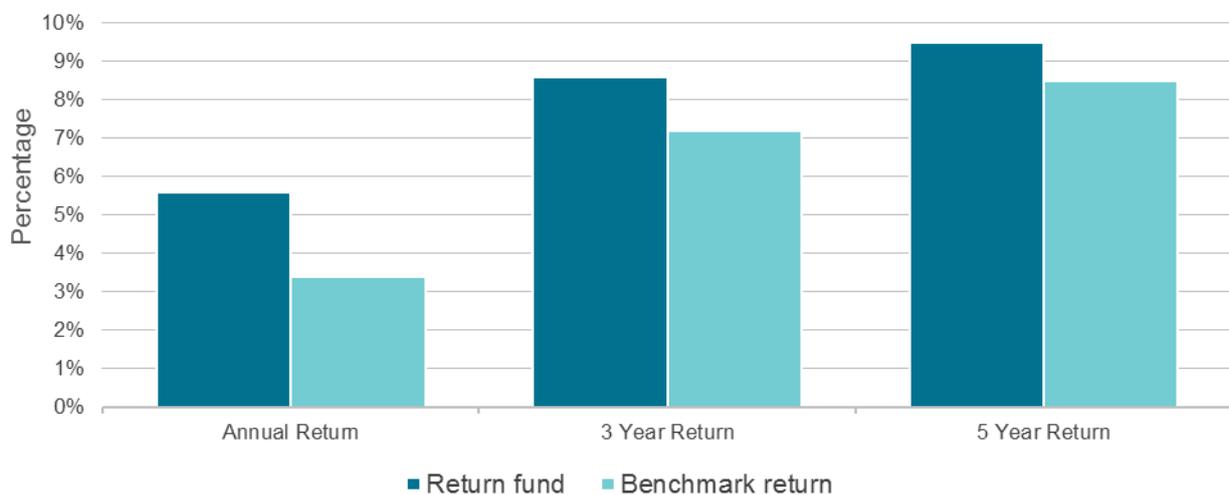
There are satisfactory arrangements in place for monitoring investment performance and scrutinising investment decisions.

Investment performance

84. The Pension Fund Investment and Performance Sub-Committee meets twice a year. A review of fund managers' performance is a standing item on the committee's agenda. At each meeting, committee members receive a report outlining overall fund performance including an analysis of risks and returns.

Exhibit 9

Fund investment performance



Source: KPMG 2018 Quarter 1 Investment Performance Report

85. Exhibit 9 shows that over the year, the Fund generated a return of 5.6% against a benchmark of 3.4%. Equity investments were the most significant contributor to this increase.

86. The three-year rolling return of 8.6% is also above benchmark of 7.2%.

87. Under the career average pension scheme (CARE), accrued benefits are indexed at Consumer Price Index (CPI). Benefits earned under the old final salary scheme will continue to increase in line with earnings.

88. The Fund appoints several external fund managers. Individual investment manager performance is reported on a quarterly basis to the Pension Fund

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

Committee by the investment consultant, KPMG. In addition, all investment managers are subject to review at least annually by the Investment and Performance Sub-Committee, and again by management to discuss operational issues. Fund managers are required to complete annual compliance checklists which are reviewed by management for instances of non-compliance with laws and professional standards.

89. The investment strategy of the Fund is included in the Statement of Investment Principles which was updated in September 2017. The Fund has adopted a risk/return asset framework as the basis for modelling and agreeing the investment strategy. The Fund is made up of 58.5% equities which provided a positive return in 2017/18. The Fund continues to invest in other assets classes such as long-lease property, private credit and infrastructure, by partnering with Lothian Pension Fund.

90. Investment return and risk are inextricably linked, and it is not possible for us to comment on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. Although asset allocation is largely in line with the Fund's investment strategy, the Fund is still overweight in equities (58.5% at 31 March 2018 against a target of 50%). This is because of the continuing rise in equity values globally. The Fund is underweight in Infrastructure by 4.7%, Private Credit by 2.7% and Long-lease Property by 1.2%. Management are working with the Investment Consultant to identify appropriate opportunities to invest in line with the agreed strategy.

Budgeting arrangements

91. 2017/18 was the first year a budget was set for those significant costs within the Fund's control, being:

- Investment management expenses
- Administration.

Investment management expenses

92. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Council and the governance fees for actuarial and audit services.

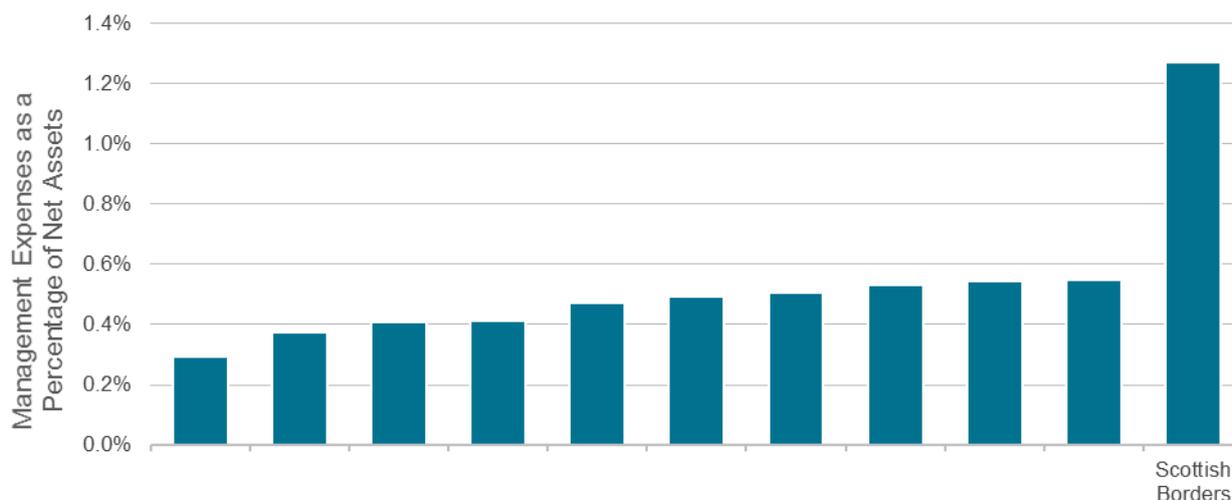
93. CIPFA published revised guidance on local government pension scheme management expenses. This guidance sets out a framework for the reporting of investment management costs and was applied from 2016/17. The new guidance recommends that only expenses that can be directly controlled by the fund should be included.

94. Now that the additional information on the cost of LGPS investment management services is available, the Fund should continue to review the level of management expenses. This includes the development of bench-marking information and, in the context of returns achieved, to ensure that value for money is being secured.

95. External investment manager fees are agreed in the respective mandates governing their appointments. These are usually based on the market value of the investments under their management and therefore increase or reduce as the value of these investments changes.

96. Investment management expenses have increased from £3.1 million in 2016/17 to £8.2 million in 2017/18, significantly higher than other Scottish Pension Funds as illustrated by [Exhibit 10](#).

Management expenses as a percentage of closing net assets



Source: Unaudited Scottish LGPS 2017/18 accounts

97. There has been significant movement between the initial budgeted investment management expenses of £3.3 million and the final outturn amount of £8.2 million. This is largely because of one-off transaction costs associated with investment in Long-Lease Property, which is seen as a key part of the investment strategy agreed with KPMG the Fund's investment consultants. KPMG are confident this cost will be recouped through investment performance. Management are aware of the increased transparency agenda and scrutiny of transactions costs and are taking steps to ensure transaction costs reported to the Committee as part of the budget process are complete and accurate.

98. We have concluded that the Fund has satisfactory arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Administrative expenses

99. The workload of the pension administration section continues to grow primarily due to the introduction of the career average pension scheme (CARE) from 1 April 2015. Other factors impacting on the administration workload include auto enrolment, freedom of choice and implementation of Business World, the new accounting and payroll system of Scottish Borders Council.

100. The Fund's administration strategy sets out a range of service standards against which administration performance is monitored. These are measured on a regular basis and are reported to the Pension Fund Committee and Board.

101. Employers are required to submit year end contribution returns by June for the preceding 31 March year end. This is an important control over the accuracy of pension contributions received and recorded in the pensions systems and is of increased importance following the introduction of CARE as the member benefit statement requires actual salary data from all employers. All year end contribution returns relating to 2017/18 have been received by the end of June.

National performance audit reports

102. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, we published our report, 'Local Government in Scotland: Financial Overview 2016/17', which contains analysis of Scottish Local Government Pension Funds. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Quality of Accounts Working Papers</p> <p>Due to the complexity of Custodian accounting information, the working papers required the Custodian data to be analysed across the ledger's coding structure to ensure the ledger recorded the correct information. This resulted in complex journals. Working papers were not referenced or linked to the Custodian data.</p> <p>Risk</p> <p>Without high quality working papers, journals into the ledger may be incorrect, resulting in misstated financial statements.</p>	<p>Officers should prepare working papers directly within the Custodian spreadsheet that allows for linking of data. Where external sources of information are required, this should be clearly referenced.</p> <p>Paragraph 17</p>	<p>Agreed.</p> <p>Chief Financial Officer</p> <p>31 March 2019</p>
2	<p>Investment Valuations</p> <p>The Custodian did not use Fund Manager valuations as at 31 March 2018 for some assets. The valuations used were the best available at the time the Custodian accounting information was prepared.</p> <p>Risk</p> <p>Without adequate review of investment movements by management, the values reported in the accounts may be materially misstated.</p>	<p>Management should ensure that investment asset values reported are as accurate as possible and that any potential differences due to timing of information are adequately considered.</p> <p>Paragraph 26</p>	<p>Agreed.</p> <p>Chief Financial Officer</p> <p>31 March 2019</p>

No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Validation of overseas pensioners</p> <p>Validation of pensioners is considered a key control that should be in place to ensure that pensioners in receipt of pensions are still eligible to receive payment.</p> <p>We identified that, whilst letters and statements are issued to overseas pensioners, there is no process to evidence their existence.</p> <p>Risk</p> <p>There is a risk that without adequate controls being in place to validate the existence of pensioners, pensions are paid to deceased pensioners.</p>	<p>A process should be developed to ensure the existence of overseas pensioners can be validated.</p> <p>Paragraph 47</p>	<p>Agreed.</p> <p>Service Director HR</p> <p>31 October 2018</p>
4	<p>Completeness of 'Tell Us Once' processing</p> <p>One of the key processes in place to ensure deceased pensioners payments are stopped timeously is using the Council's 'Tell Us Once' service, whereby the next of kin inform the Council to ensure Council Tax and other payments are stopped.</p> <p>We found that no complete record is kept of these notifications to evidence that all notifications had been actioned timeously.</p> <p>Risk</p> <p>There is a risk that not all 'Tell Us Once' notifications are actioned resulting in overpayment of pensions.</p>	<p>All notifications into the Council should be kept and recorded to ensure that all pension payments are stopped timeously when required.</p> <p>Paragraph 48</p>	<p>Agreed.</p> <p>Service Director HR</p> <p>31 October 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p>Evidence of review of exception reporting</p> <p>Controls over the pension payroll such as the investigation of exception reporting were in place. However, there was no evidence of management review of the control.</p> <p>Risk</p> <p>There is a risk that without evidence of review, the quality key control processes deteriorates to a point where the control is no longer effective.</p>	<p>Procedures should be put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained.</p> <p>Paragraph 49</p>	<p>Agreed.</p> <p>Service Director HR</p> <p>31 October 2018</p>
6	<p>Pension Administration System Standing Data</p> <p>We identified errors in the contribution rate standing data in the pension administration system. No contributing members were affected by this error on this occasion, however it is important that all standing data is subject to timely review.</p> <p>Risk</p> <p>There is an inherent risk of error when inputting standing data into key systems.</p>	<p>Sufficient review of standing data input into systems should be carried out to ensure errors are identified and rectified.</p> <p>Paragraph 51</p>	<p>Agreed.</p> <p>Service Director HR</p> <p>31 October 2018</p>

Follow up of prior year recommendations

b/f 1	<p>Financial & HR Capacity</p> <p>We found that staff capacity was showing signs of pressure. There is dependency on key staff in Finance and in HR. Staff absence has meant key reconciliations and working papers were not available or prepared to a level suitable for audit.</p>	<p>Resource requirement of the Pension Fund should be assessed and addressed to ensure administration of the Fund is efficient and effective.</p>	<p>An assessment of Pension Fund resources will be undertaken following the audit to ensure the Council retains sufficient capacity and expertise to continue to support the pension effectively. This in-house expertise will be augmented by the cost-effective use of external resources to provide specialist services where required.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>Chief Financial Officer and Service Director Human Resources</p> <p>31 December 2017</p> <p>Update</p> <p>Consider this action partly complete.</p> <p>Whilst steps have been taken to ease the administrative burden on staff, such as outsourcing the GMP reconciliation, we find that unfilled vacancies and system issues are impeding the ability of staff to perform their duties. Paragraph 38</p>
b/f 2	Governance		
	<p>Our review of the Annual Governance Statement of the Fund found that Internal Audit perform an assessment of Governance and Controls in place over the Pension Fund. However, the Internal Audit Annual Report makes no specific reference to the assurance provided for the Pension Fund.</p>	<p>The Internal Audit Annual Report should include a specific reference to Scottish Borders Council Pension Fund, as their work over the systems and controls in place at Scottish Borders Council covers the same systems for the Pension Fund, and the Pension Fund Governance statement refers to Internal Audit assurance over their controls and systems.</p>	<p>The Internal Audit Annual Report is the internal audit assurance report for the Council. A separate Internal Audit assurance report will be prepared for and presented to the Pension Fund from 2017/18.</p> <p>Chief Officer Audit and Risk</p> <p>31 March 2018</p> <p>Update</p> <p>Consider this action now complete.</p>
b/f 3	Financial Statement Disclosures		
	<p>Our review of the unaudited annual report and financial statements identified disclosures that were incomplete. These include disclosures relating to debtors, creditors and investment fair values. Including these will improve transparency and understanding of the financial statements.</p>	<p>CIPFA disclosure checklist and example accounts guidance should be used to ensure disclosures are complete.</p>	<p>Noted, a review of the disclosures recommended by the CIPFA checklist will be undertaken and these will be included in the 2017/18 Pension Fund accounts where they are considered to add value and enhance transparency.</p> <p>Chief Financial Officer</p> <p>31 March 2018</p>



No. **Issue/risk**

Recommendation

**Agreed
management
action/timing**

Update

Consider this action now complete.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>Although we have not identified any specific risks of management override relating to the Fund, ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Based on our substantive testing, we found no evidence of bias in accounting estimates, no evidence of transactions out with the scope of the Pension Fund and no evidence to suggest that management were overriding controls.</p>
<p>2 Risk of fraud over expenditure</p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA 240 requirements to aspects of expenditure such as pension payments and investments</p>	<p>Analytical procedures on payment streams.</p> <p>Focussed substantive testing of expenditure from areas of greatest risk.</p>	<p>Interim controls testing results were satisfactory.</p> <p>We carried out a review of 'experts work' for the custodian and the actuary and concluded that we could place reliance on these parties.</p> <p>Substantive testing identified no issues.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments.</p> <p>This includes level 3 investments such as unquoted equities where valuers use techniques that require significant judgement in determining appropriate assumptions for valuation.</p> <p>In addition, the actuarial valuation depends on several assumptions</p>	<p>Completion of 'review of work by service auditors' in accordance with ISA 402, for significant unquoted investments</p> <p>Test valuations to valuation reports and/or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA500 for</p>	<p>Reviewed the 'Fund Manager Annual Reviews' carried out by Fund Officers to gain assurance that Fund Managers were acting in accordance with laws and professional standards.</p> <p>We carried out reviews of 'experts work' on the custodian and the actuary. This included review of the PwC report on actuarial assumptions. We concluded that we could place</p>

Audit risk	Assurance procedure	Results and conclusions
<p>about the future, including investment returns, contribution rates, pensioner mortality and discount rates.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>the work of the actuary.</p> <p>Consideration of the report by PwC in their capacity as consulting actuary to Audit Scotland on actuarial assumptions in use in 2017/18</p> <p>Consideration of Government Actuary's Department (GAD) reports under Section 13 of the Local Government Pension Scheme (Scotland) of LGPS Scotland funding valuations and employer contribution rates.</p>	<p>reliance on the custodian and the actuary.</p> <p>Reviewed procedures by Fund Officers to ensure Level 2 and 3 investments were valued appropriately. Refer to Action Point 2</p>

4 Reporting Disclosures

The Code of Practice on Local Authority Accounting now requires Funds to disclose transaction costs broken down by major asset classes to increase transparency.

A change to accounting disclosures raises a risk that the required disclosures are not made appropriately.

Review the transaction cost disclosures against the Code, and available data to determine the completeness of disclosures and costs.

Ensured that the CIPFA Disclosure Checklist was completed accurately, and that all disclosures appropriate to the Fund were made.

5 New Financial System

Scottish Borders Council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including manual intervention required to process some transactions.

There is a risk that financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the Council's system of internal controls and the preparation and audit of the financial statements.

Review of internal work on the systems of internal control.

Testing of the operation and effectiveness of the controls in place over the system.

Review the governance arrangements over the implementation of Business World.

We tested the controls in place over the new financial system, including using the work of internal audit. Findings of this work were reported to the Audit and Scrutiny Committee in June 2018 in the Scottish Borders Council interim report.

Audit risk	Assurance procedure	Results and conclusions
------------	---------------------	-------------------------

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

6 Financial sustainability

In 2016/17, benefits paid out exceeded contributions paid into the Fund. The recently established cash flow models for 2017/18 shows a continuing deficit position, which will be funded using investment income.

Furthermore, the triennial valuation of the Fund can have a significant impact on the financial position of the Fund and of its member bodies and there is a risk that the 2017 valuation will cause member bodies to reassess the financial sustainability of membership.

Monitor the financial position of the Fund and the quality of the financial reporting

Review of cash flow forecasting.

Reviewed Committee papers and minutes to determine the adequacy of financial sustainability information submitted to members.

Reviewed the cashflow forecasting exercise carried out by the Investment Consultant to understand the expected future cashflows of the Fund.

Refer to [Paragraph 54](#)

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Scottish Borders Council Pension Fund

2017/18 Annual Audit Report

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

24th September 2018

Dear Audit and Scrutiny Committee Members

Charitable Trusts administered by Scottish Borders Council Report to those charged with governance on the 2017/18 audit

1. In accordance with the Charities Accounts (Scotland) Regulations 2006 an audit is required for all registered charities where the local authority is the sole trustee irrespective of the size of the charity (see [Appendix A](#)). This is due to the interaction of Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The auditor of Scottish Borders Council, Audit Scotland, has been appointed as the auditor of the relevant charitable trusts for the year ended 31 March 2018.
2. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The Audit and Scrutiny Committee of Scottish Borders Council is identified as those charged with governance. The trustees of the charities are the elected members of Scottish Borders Council.
3. This report sets out, for the Audit and Scrutiny Committee's consideration, the matters arising from the audit of the financial statements for 2017/18 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however, this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Scottish Borders Council and trustees of the registered charities and no responsibility to any third party is accepted.

Status of the Audit

4. Our work on the financial statements is now complete. The issues arising from the audit were discussed with officers during the audit.
5. We received the unaudited financial statements on 29 June 2018. The working papers and information provided in support of the financial statements were adequate. Finance staff provided support to the audit team through the course of the audit.

Matters to be reported to those charged with governance

6. We are required to report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.

Conduct and scope of the audit

7. We are required to audit the financial statements of the charitable trusts where the sole trustees are elected members of Scottish Borders Council.
8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan of Scottish Borders Council presented to the Audit and Scrutiny Committee on 19 March 2018 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in 2016.
9. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2017/18 agreed fee for the audit was disclosed in the Scottish Borders Council Annual Audit Plan and as we did not carry out any additional work out with the planned audit activity this fee remains unchanged.

Fraud

10. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the trustees we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation ([Appendix C](#)).

Audit opinion & representations

11. We are required to report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature. There were no unadjusted misstatements.
12. As part of the completion of our audit we seek written assurances from the Chief Financial Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix C](#). This should be signed and returned by the Chief Financial Officer with the signed financial statements prior to the independent auditor's opinion being certified.
13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Significant findings from the audit

14. In our view, there are no known issues that require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

15. The Cash Flow Statement for the Common Good Funds contained several errors which needed correction. An amended statement required to be re-submitted for audit. In addition, presentational adjustments were identified within the financial statements during our audit. These were discussed with finance officers who agreed to amend the unaudited financial statements.

Independent auditor's reports

16. Our audit work on the 2017/18 annual accounts is now substantially complete. Subject to receipt of a revised sets of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's reports on 25 September 2018 (the proposed report is listed at [Appendix B](#)).

Acknowledgements

17. We would like to express our thanks to the staff of Scottish Borders Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Yours faithfully,

Asif A Haseeb OBE

Appendix A - Registered Charitable Trusts of Scottish Borders Council

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

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

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

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts/Scottish Borders Council Common Good Funds/ Scottish Borders Council Community Enhancement Trust/Scottish Borders Council Education Trust/ Scottish Borders Council Ormiston Trust for Institute/Scottish Borders Council Welfare Trust and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Charitable Trusts/Scottish Borders Council Common Good Funds/ Scottish Borders Council Community Enhancement Trust/Scottish Borders Council Education Trust/ Scottish Borders Council Ormiston Trust for Institute/Scottish Borders Council Welfare Trust) and the Accounts Commission (*include/delete as appropriate*) for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is

consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

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

September 2018

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

APPENDIX C: Letter of Representation (ISA 580)

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

25 September 2018

Dear Mr Haseeb

Charitable Trusts administered by Scottish Borders Council - Annual Accounts 2017/18

- Scottish Borders Council Charitable Trusts
- Scottish Borders Council Common Good Funds
- Scottish Borders Council Community Enhancement Trust
- Scottish Borders Council Education Trust
- Scottish Borders Council Ormiston Trust for Institute
- Scottish Borders Council Welfare Trust

1. This representation letter is provided in connection with your audit of the Annual Report and Financial Statements of the registered charitable trusts listed above for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view/properly present the financial position of each of these registered charitable trusts as at 31 March 2018 and their statements of financial activities for the year then ended.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the trustees of the registered charitable trust where the sole trustees are members of Scottish Borders Council, the following representations given to you in connection with your audit for the year ended 31 March 2018.

General

3. I acknowledge my responsibility and that of Scottish Borders Council (as the administering authority) for the financial statements. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the Charitable Trusts have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The financial statements comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the regulations 9(1), (2) and (3) of the Charities Accounts (Scotland) Regulations 2006.
6. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and of the registered charitable trusts for the year ended 31 March 2018.

Accounting Policies & Estimates

7. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

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

Related Party Transactions

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

Events Subsequent to the Balance Sheet Date

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

Corporate Governance

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

Fraud

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

Assets

14. The investments shown in the balance sheet at 31 March 2018 were owned by the registered charity. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value of classification of the assets within the financial statements.
15. This letter is signed on behalf of the Trustees.

Yours sincerely

David Robertson
Chief Financial Officer

Audit and Scrutiny Committee
Scottish Borders Council, Newtown St Boswells, TD6 0SA
24 September 2018

Dear Audit and Scrutiny Committee Members,

Scottish Borders Council Audit of 2017/18 annual accounts

Independent auditor's report

1. Our audit work on the 2017/18 annual accounts is now complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 28 September (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit and Scrutiny Committee's consideration our draft annual report on the 2017/18 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. We identified one error which management have chosen not to adjust. This related to non-current assets which should have been depreciated or impaired during the year. If corrected, this would increase net expenditure by £2.13 million and decrease the net assets in the balance sheet by the same amount.

Representations from Chief Financial Officer

7. As part of the completion of our audit, we are seeking written representations from the Chief Financial Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A letter of representation is template attached at **Appendix B**. This should be printed on headed paper, signed and returned to us by the Chief Financial Officer with the signed annual accounts prior to the independent auditor's report being certified.

Yours faithfully,

Gillian Woolman MA FCA CPFA

APPENDIX A: Proposed Independent Auditor's Report

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Scottish Borders Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the Council Tax Income Account, the Non-Domestic Rate Income Account, Trust Funds, Common Good Funds, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Financial Officer and Audit & Scrutiny Committee for the financial statements

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

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit & Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2018

APPENDIX B: Letter of Representation (ISA 580)

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

Dear Gillian

Scottish Borders Council Annual Accounts 2017/18

1. This representation letter is provided in connection with your audit of the annual accounts of Scottish Borders Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Scottish Borders Council's annual accounts for the year ended 31 March 2018.

General

3. Scottish Borders Council and I have fulfilled our statutory responsibilities for the preparation of the 2017/18 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scottish Borders Council have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (2017/18 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Scottish Borders Council and its Group at 31 March 2018 and the transactions for 2017/18.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2017/18 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Scottish Borders Council circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Scottish Borders Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scottish Borders Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2018 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
11. I carried out an assessment at 31 March 2018 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2018.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2018 of which I am aware have been recognised in the annual accounts.
16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2018 of which I am aware where the conditions specified in the 2017/18 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2018. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2018 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
18. The accrual recognised in the financial statements for holiday untaken by 31 March 2018 has been estimated on a reasonable basis.
19. The pension assumptions made by the actuary in the IAS 19 report for Scottish Borders Council have been considered and I confirm that they are consistent with management's own view.
20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Fraud

21. I have provided you with all information in relation to
 - my assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

22. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

23. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all the Scottish Borders Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

24. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

25. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

26. I confirm that the Scottish Borders Council has undertaken a review of the system of internal control during 2017/18 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
27. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is

consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2018, which require to be reflected.

Group Accounts

28. I have identified all the other entities in which Scottish Borders Council has a material interest and have classified and accounted for them in accordance with the 2017/18 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Balance Sheet

29. All events subsequent to 31 March 2018 for which the 2017/18 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

David Robertson, Chief Financial Officer

Section 95 Officer

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Scottish Borders Council

2017/18 Annual Audit Report



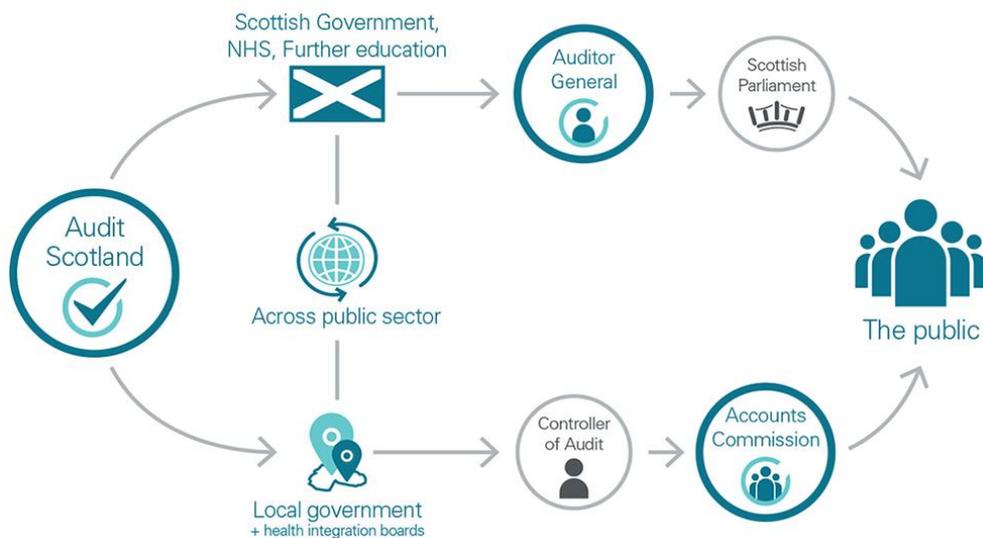
 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit
September 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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Key messages

2017/18 annual accounts

- 1** In our opinion, Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared. The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 2** The statement of accounts of the six section 106 charities administered by the Council are free from material misstatement.

Financial management

- 3** The Council has a good track record of delivering services within its budget.
- 4** Weaknesses in the Council's systems of internal control were identified following the introduction of a new financial system. We adapted our audit approach accordingly. However we did not identify any significant errors arising from these weaknesses.

Financial sustainability

- 5** The Council has detailed medium term financial plans and has started to produce long term scenario plans in its budgeting process, in line with good practice.
- 6** Medium term financial plans demonstrate sustainability although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

Governance and transparency

- 7** The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.
- 8** The Council's website allows the public access to a wide range of information including registers of members' interests, consultations and surveys and how to make a complaint.

Best Value

- 9** Our work on Performance and Outcomes found the Council has developed a Local Outcome Improvement Plan, aiming to improve the area's economy as a priority as well as improving educational attainment and care services. The Council recognises that achieving improvement in these outcomes will take time and require changes in how services are delivered.
- 10** The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Scottish Borders Council and its group (“the Council”).

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work have been:

- an audit of the Council and its group 2017/18 annual accounts and the statement of accounts of the six section 106 charities administered by the Council, including the issue of independent auditors' reports setting out our opinions
- a review of the Council's key financial systems
- audit work covering the Council's arrangements for securing Best Value relating to performance and outcomes

- consideration of the four audit dimensions.

4. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and in doing this we aim to support improvement and accountability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. The 2017/18 audit fee of £270,230 was set out in our Annual Audit Plan. In addition to the work set out in the Annual Audit Plan, we also undertook work to confirm that adequate financial provision was in place for the Council's landfill site, which is a requirement of the landfill permit issued by SEPA. A separate fee of £3,000 was charged for this work. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Scottish Borders Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared. The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

The statement of accounts of the six section 106 charities administered by the Council are free from material misstatement.

Audit opinions on the annual accounts

15. The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Council on 25 September 2018. We reported, within our independent auditor's report that, in our opinion:

- the Council and its group financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

16. We have nothing to report in respect of misstatements in: information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

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

Audit opinions on section 106 charities

17. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Scottish Borders Council (SBC) are sole trustees, irrespective of the size of the charity.

18. The Council has six section 106 charities which have been separately audited. In 2016/17 there were seven trusts, however the Thomas Howden wildlife trust was amalgamated into the SBC Educational Trust for 2017/18. Further work on reorganising the structure of trusts administered by the Council has been carried out during 2017/18. The SBC Charitable Trusts administers a variety of charitable funds and during the year approval was received from the Office of the Scottish Charity Regulator (OSCR) to transfer a number of these funds to either the SBC Welfare Trust or the SBC Community Enhancement Trust. These funds transferred from 1 April 2018. Work continues in 2018/19 on the remaining funds administered by the Charitable Trusts to amalgamate them into other trusts.

19. We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in our independent auditor's reports that, in our opinion:

- the financial statements give a true and fair view of the section 106 charities financial position and are properly prepared in accordance with charities legislation
- the trustees' annual reports are consistent with the financial statements and prepared in accordance with proper accounting practices.

20. The Council should continue to review trusts' assets to ensure that they are being accurately reported.

Submission of the Council and its group annual accounts for audit

21. We received the unaudited annual accounts on 29 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

22. The working papers provided with the unaudited accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Whole of Government Accounts

23. The Council submitted a consolidation pack for the whole of government accounts audit on 16 July 2018 in line with the deadline.

Risk of material misstatement

24. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

25. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

26. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and based on the audited 2016/17 accounts. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

27. On receipt of the 2017/18 Unaudited Annual Accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that the bases remained appropriate. Our final materiality levels are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£3.78 million
Performance materiality	£1.89 million
Reporting threshold	£75,000

Source: Audit Scotland

How we evaluate misstatements

28. There were no material adjustments to the unaudited financial statements arising from our audit. Our work identified three errors which exceeded our reporting threshold, as detailed in [Exhibit 3](#) below, and in [Appendix 3](#).

29. It is our responsibility to request that all errors above the reporting threshold are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for these items as the amounts are not considered material in the context of the financial statements. We agree that these amounts are not material.

Significant findings from the audit in accordance with ISA 260

30. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

31. The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Non-current assets</p> <p>Our work included a review of non-current assets included on the Council's balance sheet for assets that had not been charged depreciation during the year. This work identified that several assets with net book values had not been charged depreciation that should have been, as the assets were included with nil remaining useful lives even though they remain in use. This results in the non-current assets being overstated by £2.13 million.</p>	<p>Management have decided not to adjust for this error in the financial statements. Corrections will be made in 2018/19 for the assets identified, through including the assets within the Council's revaluation programme for the year or impairing the assets as appropriate. We have accepted this treatment as the misstatement is below our overall materiality value of £3.78 million.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Pension Scheme Valuation</p> <p>The Council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were lower than actual returns. This resulted in pension fund assets reported in the Council's balance sheet being understated by approximately £1 million.</p>	<p>The accounts have not been adjusted to reflect the Council's share of the pension fund assets based on the value at 31 March 2018 as management concluded this was not material. We agreed with this assessment.</p> <p>We have not included this as an unadjusted error as it is an area of significant estimation and judgement.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Payroll Creditors</p> <p>The total creditors figure within the balance sheet contained several balances relating to payroll. This included large debit balances of £28.4 million and £3.8 million as well as large credit balances of £34.9 million and £2.9 million. It was not clear what these balances related to and what the correct year end creditor balance for the payroll amounts should be.</p>	<p>The balances were caused by the financial coding structure in the new financial system implemented from April 2017. Management carried out additional work and provided further supporting evidence to clarify the correct payroll creditors position at the year end. This identified that creditors were understated by £0.14 million at the year end.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Good practice in financial reporting

32. The annual accounts reflect good practice as set out by Audit Scotland in '[Improving the quality of local authority accounts – expenditure and funding analysis](#)'. The expenditure and funding analysis in the Council's accounts was consistent with the key messages from our good practice note.

Follow up of prior year recommendations

33. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

34. In total, four agreed actions were raised in 2016/17. Of these:

- two have been fully implemented
- two have been partly actioned

35. Overall the Council has made satisfactory progress in implementing these actions. For those actions partly implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

Other findings

36. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

37. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period.

38. The Council's advert stated that the accounts would be available for inspection from the Council offices during office hours or on the Council website, 24 hours a day, from 2 July 2018. An objection to the accounts was received stating that the accounts were not available on the Council website on the morning of 2 July. We confirmed with officers that there was a delay in uploading the Council's accounts to the website and they were only available from the afternoon on 2 July. The Council did not fully comply with the Regulations as the accounts were not available for the full duration specified in the advert, although hard copies were available from Council offices.

39. The objection received also related to other aspects of the accounts, including the treatment of Public Private Partnership (PPP) assets and the treatment of components in the group accounts. We considered the points raised in the objection as part of our audit work on the financial statements. We accepted elements of these could be considered as potentially valid objections under section 101 of the Local Government (Scotland) Act 1973. We examined these accordingly, and from our work we were satisfied that these did not constitute the basis of a valid objection and did not identify any issues which had an impact on our opinion on the financial statements.

Part 2

Financial management



Main judgements

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

Weaknesses in the Council's systems of internal control were identified following the introduction of a new financial system. We adapted our audit approach accordingly. However we did not identify any significant errors arising from these weaknesses.

Financial performance in 2017/18

40. In February 2017 the Council approved a budget of £264.8 million for 2017/18. The actual outturn for the year was expenditure of £254.2 million, which was an underspend of £1.3 million against the revised budget of £255.5 million for the year. The Council has a good track record in delivering services within budget over the last few years.

41. While the Council's spending has remained in line with its overall budget, there were some significant variations in how different services have performed. Examples of larger areas of under and overspends are summarised in [Exhibit 4](#).

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

Exhibit 4

Examples of under / overspends against budget

Area	(Under)/over spend (£m)	Reason for variance
Underspends		
Children & Young People	£(0.55)	Non filling of vacancies and implementation of corporate freeze on discretionary spend
Finance, IT & Procurement	£(0.78)	Restructuring of the service following the launch of new ERP system and corporate underspends within, IT, Non Domestic Rates rebates and loans charges in line with Council's approved approach to borrowing

Area	(Under)/over spend (£m)	Reason for variance
Overspends		
Asset & Infrastructure	£1.45	Impact of severe winter weather

Source: Scottish Borders Council 2017/18 Revenue Outturn

Efficiency savings

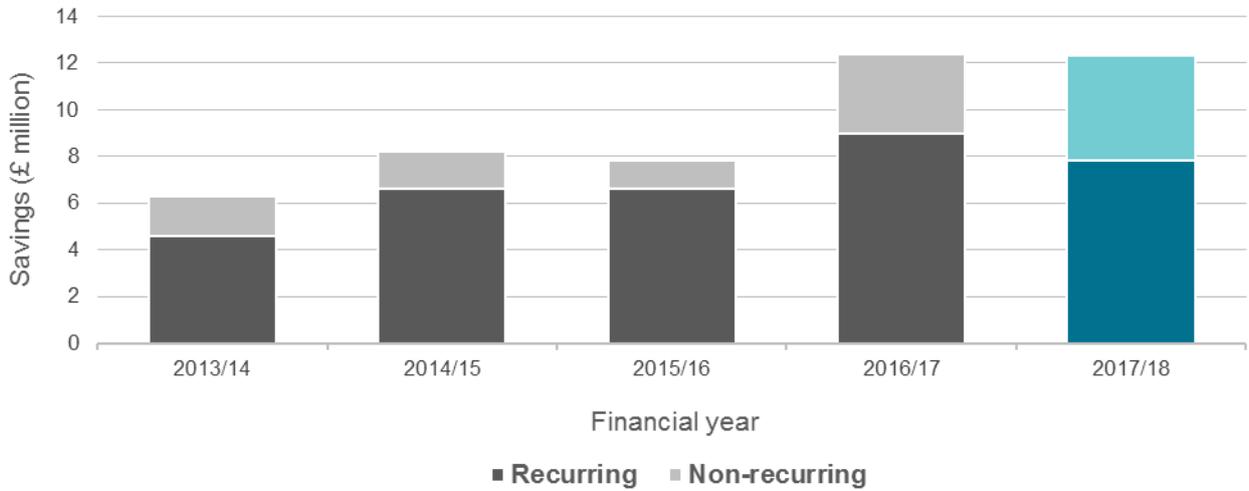
42. With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments. The Executive Committee at the Council receives quarterly updates on savings during the year which provides an effective means of scrutinising the achievement of planned savings.

43. The Council has responded well to the challenges it has faced and has a good track record of delivering savings each year. Savings of £12.3 million were reported as delivered during 2017/18. This was a similar level of savings compared to prior year (£12.4 million). However the proportion of savings achieved on a recurring (permanent) basis has continued to decrease compared to previous years, with 63% (£7.8 million) achieved on a permanent basis in 2017/18 compared to 73% (£9.0 million) in 2016/17 and 85% (£6.6 million) in 2015/16. The remaining 37% (£4.5 million) were delivered on a non-recurring (temporary) basis and will need to be addressed in future years.

44. As illustrated in [Exhibit 5](#), the Council has been increasingly reliant on non-recurrent savings in recent years. The larger percentage of non-recurring savings in 2017/18 was mainly due to the delays in implementing new IT systems which meant that alternative savings had to be delivered on a temporary basis instead. There is risk that the proportion of savings delivered on a non-recurring basis is not sustainable for the Council in the longer term.

[Appendix 1, Action plan point 4](#)

Savings – recurring and non-recurring



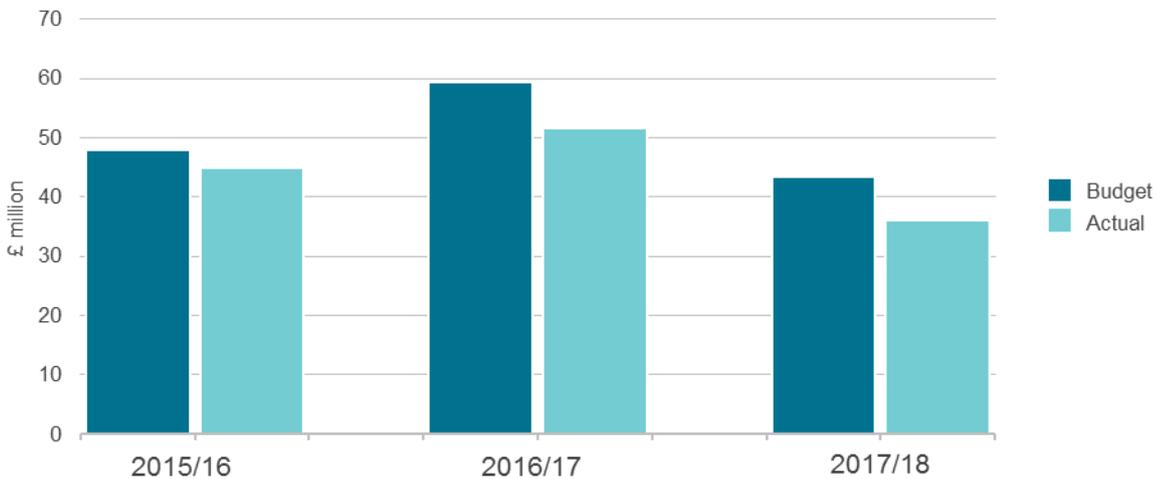
Source: Scottish Borders Council revenue outturn reports

Capital programme 2017/18

45. The Council agrees a 10 year capital plan each year as part of its budget process. Total capital expenditure in 2017/18 was £36.0 million, with significant expenditure on its school estate, including delivering a new Broomlands Primary School in Kelso, a new Langlee Primary School in Galashiels and the new Kelso High School. Other significant areas of expenditure included the Hawick Flood Protection Scheme, a refurbishment of Lowood Bridge and an initiative in Hawick to address derelict industrial premises with support from the Scottish Government. The total capital spend was £7.4 million below the revised budget for the year. The Council has a history of slippage in its capital programme as outlined in [Exhibit 6](#).

Exhibit 6

Capital slippage compared to budget



Source: Scottish Borders Council Capital Outturn reports

46. The main areas of slippage were in ICT Transformation expenditure to reflect timing of work now planned for 2018/19 and in roads and transport infrastructure where work was delayed due to the severe winter weather.

Budgetary process

47. The [Local Government in Scotland: Financial overview 2016/17](#) (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.

48. Within the Council the detailed scrutiny of financial performance is delegated to the Executive Committee which receives quarterly revenue and capital monitoring reports. From our review of these reports and attendance at committee we concluded that they provided a satisfactory overall picture of the budget position at service level. The reports forecast out-turn position for the year and include narrative explanations for significant variances against budget. They allow both members and officers to carry out effective scrutiny of the Council's finances.

Systems of internal control

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

50. The Council implemented a new financial system, Business World, from April 2017. This was a major change at the Council, with Business World replacing existing finance, HR and procurement systems, with the aim of delivering significant savings for the Council. Such a significant change includes inherent risks given the scale and complexity of the change being implemented. The introduction of the new system resulted in several issues with the operation of internal controls, including instances of an audit trail for changes to the system not being maintained and bank reconciliations not being completed on time. Our findings were included in our interim Management Report that was presented to the Audit and Scrutiny Committee on 26 June 2018. We concluded that we could take assurance from some of the controls in operation, however additional testing was carried out on the financial statements to ensure the weaknesses identified did not result in a material misstatement in the financial statements.

51. Our year end testing confirmed that many issues reported in the Management Report had started to be addressed, including bank reconciliations being completed by the year end. We will follow up the issues identified in the Management Report as part of our 2018/19 audit work.

[Appendix 1, Action plan point 5](#)

Part 3

Financial sustainability



Main judgements

The Council has detailed medium term financial plans and has started to produce long term scenario plans in its budgeting process, in line with good practice.

Medium term financial plans demonstrate sustainability although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

Financial planning

52. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures. The Council has a financial strategy covering five years, which is in line with good practice, and which is reviewed as part of the annual budget setting process.

53. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income. Following an audit recommendation in 2016/17, the Council's budget proposal for 2018/19 included scenario planning for the 10-year period to 2027/28. The scenarios included a 'favourable' scenario where the gap between expenditure and funding is £32.8 million by 2027/28, and a 'least favourable' scenario where the gap is £79.9 million.

Funding position

54. The Council approved its 2018/19 budget in February 2018. The budget was set at £272.7 million. The Council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and reductions in local government funding.

55. As outlined in paragraph 43, the Council achieved its efficiency savings target in 2017/18. The Council has identified that it needs to make savings of £11.4 million for 2018/19. Looking at the Council's budget information/financial projections for 2019/20 to 2022/23, it is forecasting a funding gap of £21.1 million over the period.

Ending of public sector pay cap

56. The Council's 2018/19 budget contains full provision for pay increases in line with the Scottish Government public sector pay statement. The effect of this is additional costs of £13.2 million over the next 5 years.

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

Reserves

57. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council increased from £25.9 million in 2016/17 to £28.8 million in 2017/18.

58. The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

59. The Council reviews the level of its uncommitted reserves when setting the budget each year. The review is based upon an assessment of corporate risks, with each risk being assigned a likely financial amount as well as a likelihood of the risk occurring. As part of the budget setting process for 2018/19 the Corporate Financial Risk Register was considered by the Council in February 2018. At this time the financial risk was assessed as being £11.1 million. The unallocated general fund balance of £6.3 million is sufficient to cover 57% of these risks at that time. This is a slight improvement on the prior year position which covered 52% of the assessed risks at that time.

60. We consider the Council's approach to reserves to be good practice and are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.

61. [Exhibit 7](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund balance has remained relatively stable in recent years, although there was a significant reduction between 2015/16 and 2016/17 as the Council utilised earmarked balances within the reserve.

Exhibit 7

Analysis of general fund over last five years



Source: Scottish Borders Council Financial Outturn reports

City Region Deal and Borderlands Inclusive Growth Deal

62. The Council is part of the Edinburgh and South East Scotland City Region Deal. The deal is an agreement between the Scottish Government, the UK Government and local government designed to bring about long-term strategic

approaches to improving regional economies. It involves five other Councils: City of Edinburgh, East Lothian, Fife, Midlothian and West Lothian Councils; as well as the city region's universities and colleges; and the private and third sectors. Overall, £1.3 billion will be invested in the City Deal region over the next 15 years.

63. The Heads of Terms for the Deal were agreed in July 2017, with the Deal being formally agreed in August 2018 by the partners.

64. As part of the City Deal, the Council has prepared a business case for a Central Borders Innovation Park in Tweedbank. This will be funded by £15 million being provided from the City Region Deal over a 15-year period, along with £14 million provided from other sources.

65. The Council is also part of the Borderlands Inclusive Growth Deal, which is a partnership with four other local authorities: Carlisle City Council, Cumbria County Council, Dumfries & Galloway Council and Northumberland County Council. The deal will focus on several key themes. These are Energy; Digital; Transport Connectivity; Rural Productivity; Business; Destination Borderlands; Quality of Place; and Skills.

66. A proposition for the deal was submitted to the Scottish and UK governments in October 2017 and the initiative was included in the UK government's budget statement. An overview and strategic outline business case is to be submitted to the UK and Scottish governments by the end of September 2018.

Business transformation

67. Audit Scotland's [*Local government in Scotland – challenges and performance 2018*](#) (April 2018) highlighted that 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.

68. The Council has a Corporate Transformation Programme in place which was established in 2015 and revised in February 2018 to better align with the new Corporate Plan and focus on a reduced number of projects. The programme has five workstreams: Digital Transformation, Children & Young People, Health & Social Care, Workforce Transformation and Corporate Landlord.

69. Progress with the programme is reported quarterly to the Council's Executive Committee during the year.

70. Part of the Digital Transformation workstream included the outsourcing of the Council's ICT services to an external partner, CGI, as part of a 13-year contract. This contract included the introduction of the Council's new integrated finance and HR system, Business World. As noted in paragraph 50, the introduction of this system resulted in weaknesses in the system of internal control which we reported in our interim report in June 2018.

71. Another part of the Digital Transformation workstream is the Digital Customer Access Programme which is intended to allow members of the public to access services and information online to increase efficiency and flexibility. This was due to be implemented early in 2018, however the system proposed by the third party specialist hired by CGI was not appropriate and the third party had its contract cancelled during the year at the request of the Council.

72. To address the delays and problems from implementing these new systems, a team of consultants have been employed by CGI to work with the Council. This has been done under the ICT contract arrangements with CGI and not at additional expense to the Council.

73. The Council has identified a number of lessons learned following the issues experienced with the delivery of the new systems. These include over-reliance on the third party integration specialist, lack of an overall system architect and test systems not being available before the system went live.

[Appendix 1, Action plan point 6](#)

EU withdrawal

74. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

75. In January 2017 the Council's Executive Committee agreed to the formation of a Brexit Response Team to monitor and respond to changes at the Council because of Brexit. This team consists of representatives from various service areas, including Procurement, Legal and Human Resources. Work is still ongoing to identify the potential impact of any changes at the Council. The Council should ensure it closely monitor developments and have plans in place to mitigate any emerging operational risks.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.

The Council's website allows the public access to a wide range of information including registers of members' interests, consultations and surveys and how to make a complaint.

Governance arrangements

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

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

77. A revised Scheme of Administration was agreed by the Council following the election in May 2017. The functions previously delegated or referred to the Scrutiny Committee by the Council have now been included within the functions of the Audit and Scrutiny Committee which has replaced the previous Audit and Risk Committee.

78. The Audit and Scrutiny Committee includes space for up to three external members for considering audit related matters, which was also the case for the previous Audit and Risk Committee. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control. In recent years the committee has not had the full complement of external members and has only had one external member during 2017/18, although the Council is making efforts to recruit additional external members.

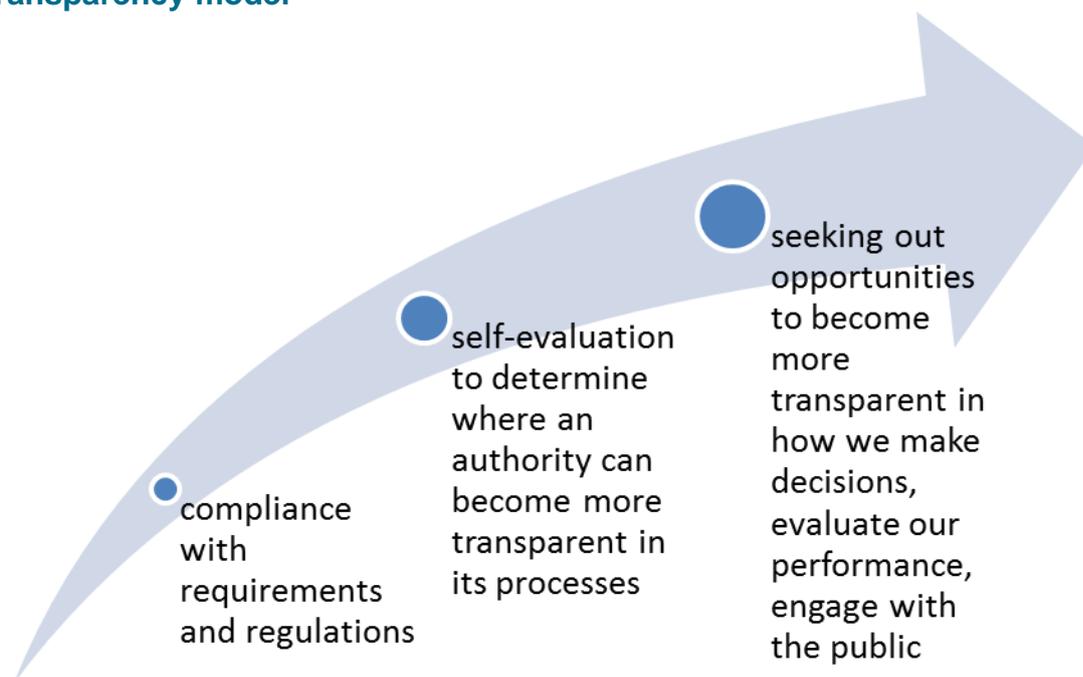
79. We concluded that the Council's arrangements are appropriate in that they support good governance and accountability.

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

Transparency

80. Transparency means that the public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets. Transparency is a process and good governance leads to an approach designed to increase transparency, [exhibit 8](#).

Exhibit 8 Transparency model



Source: Audit Scotland

81. There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

82. The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizen's panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.

83. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Internal Audit

84. The Council's Internal Audit function is carried out by an in-house team. Each year we consider Internal Audit work to avoid duplication of effort. We carry out an assessment of the Internal Audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). Our assessment confirmed that the Council's Internal Audit perform in accordance with PSIAS.

85. We reviewed the Council's Internal Audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of Internal Audit. In 2017/18 we used Internal Audit's work in the following areas: Business World, Revenues (Council Tax) and Grants incorporating "following the public pound". We also considered Internal Audit report findings as part of our wider dimension work.

Management commentary, annual governance statement and remuneration report

86. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements.

87. Based on our knowledge and work performed, we concluded that the annual governance statement and remuneration report are consistent with the financial statements.

88. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body. We concluded that the Council's management commentary was balanced, well presented and understandable, and consistent with the financial statements.

National Fraud Initiative

89. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

90. NFI activity at the Council, excluding Council tax data matching work, is summarised in [Exhibit 9](#).

Exhibit 9

NFI activity



1,021

Matches



164

**Recommended for
investigation**



750

**Completed/closed
investigations**

Source: NFI secure website: www.nfi.gov.uk

91. In addition to the NFI activity, the Council undertook work during the year on identifying potential frauds in the awarding of council tax single person discounts. This work identified 129 cases for investigation, resulting in the identification of 53 cases where the discount had been claimed fraudulently or in error.

92. The outcome of the Council's work on fraud prevention, detection and investigation is reported annually to the Audit & Scrutiny Committee. The Counter Fraud Annual Report detailed that a saving of £37,523 was identified from 2017/18 work.

93. Overall, we have concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Standards of conduct for prevention and detection of fraud and error

94. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, counter fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

95. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Cyber security

96. The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

97. As noted in paragraph 70, the Council has outsourced its ICT arrangements to CGI as part of a 13-year contract. Under this agreement, CGI are responsible for cyber security arrangements and the Council relies on their expertise in addressing cyber security risks.

Public Services Network (PSN)

98. Like the Internet, the Public Services Network (PSN) is made up of different networks which are connected together. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards with which all users, suppliers and customers must comply. These standards, the PSN Codes and Conditions, are administered by the Cabinet Office's Digital Service.

99. Each year the Council submits an application for continuing Public Services Network (PSN) accreditation. A successful submission of the Council's PSN Code of Connection Application was made in July 2017 and the Council achieved accreditation of its compliance with the requirements of the PSN with the Certificate issued by the Cabinet Office dated 4 September 2017.

General Data Protection Regulation

100. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the Data Protection Act and has introduced new and significantly changed data protection concepts.

101. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

102. The Council has made plans for ensuring that it complies with the requirements of the new Regulation, including forming a GDPR Project Board which meets monthly to monitor progress, with oversight by the Information Governance Group. One of the key elements of this project is the completion of Information Asset Registers (IARs) to identify the information that is held by the Council. Monitoring reported to the GDPR Project Board at the start of September

2018 identifies that Information Asset Registers are still incomplete, with 82.5 percent of registers complete. It should be noted that the percentage reporting of the IAR is slightly misleading because an asset could only have one element missing (e.g. retention) yet the entire asset is marked as incomplete.

103. The Council has produced mandatory training on the requirements of GDPR which all members of staff at the Council are expected to complete. Completion of this training is also behind schedule, with only 66 percent of staff having completed the training.

[Appendix 1, Action plan point 7](#)

Correspondence referred to the auditor by Audit Scotland

104. We received correspondence covering a variety of issues including procurement and performance. We considered the issues and evidence provided. We are satisfied that this did not identify any issues which had an impact on our opinion on the financial statements.

Integration of health and social care

105. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

106. The Scottish Borders Integration Joint Board (IJB) was formally established in February 2016. The IJB became fully operational on 1 April 2016 when it began its strategic oversight of the delivery health and social care services for the residents of the Scottish Borders.

107. We are seeing a number of programmes and initiatives moving towards shifting the balance of care, including the Discharge to Access pilots at Craw Wood and Hospital at Home. Inevitably it will take some years before projects and programmes have become sufficiently established to be able to conclude on the effectiveness of the IJB.

108. The IJB allocates the resources it receives from the Council and NHS Borders in line with its Commissioning and Implementation Plan. The IJB reported a breakeven position at 31 March 2018. The Financial Plan for 2018/19 was considered by the Integration Joint Board in April 2018 but has not yet been approved due to the high level of unidentified savings, most of which relate to healthcare services, included in the Plan.

109. The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report has been produced setting out the auditor's conclusions. The financial transactions of the IJB have been consolidated into the Council's group accounts.

Local scrutiny plan

110. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted on 27 March 2018. It was presented to the Audit and Scrutiny Committee on 14 May 2018. The LAN did not identify any new risks in the year which would require specific scrutiny work during 2018/19. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Part 5

Best Value



Main judgements

Our work on Performance and Outcomes found the Council has developed a Local Outcome Improvement Plan, aiming to improve the area's economy as a priority as well as improving educational attainment and care services. The Council recognises that achieving improvement in these outcomes will take time and require changes in how services are delivered.

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

Best value

111. Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for Scottish Borders Council is planned for 2019.

112. The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in performance and outcomes. The findings of this work are reported below. The effectiveness of the Council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

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

Community engagement

113. Internal Audit found that the Council's Communities and Partnerships Team has taken significant steps to engage with communities, Elected Members, officers and the Community Planning Partnership through awareness sessions. The Team has developed a comprehensive website providing guidance on what Community Empowerment is intended to achieve as well as how to engage with the process. The website itself is carefully written in understandable terms and contains useful links to more detailed guidance issued by the Council, Scottish Government and others as well as an informative Frequently Asked Questions section.

Following the public pound

114. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

115. During the year, Internal Audit made a recommendation for a re-work of the Council's Following the Public Pound guidance, with supporting guidelines for the different funds distribution channels - Contract Management on one hand and separately Grants and Other Distributions on the other. This work should be

progressed alongside the updating of the Financial Regulations and the work on design, development and delivery of the Contract Management Framework.

[Appendix 1, Action plan point 8](#)

Performance and Outcomes

116. During 2017/18 we undertook an assessment of the progress made, and arrangements in place over, Performance and Outcomes at the Council. This included reviewing the Council's own performance reporting, analysing Local Government Benchmark Framework and Community Planning Outcomes Profile information, as well as other stakeholder reporting that covers the Council area.

117. The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

118. Additionally, the Council's Executive Committee receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities as set out in its Corporate Plan. The performance reports are also made available to the public through the performance section of the Council's website.

119. We concluded that performance across the Council over the last 5-10 years is generally improving. However, there are areas where the Council hasn't made the same progress as the rest of Scotland, including:

- unplanned hospital visits have increased by 44% over the last ten years, whereas the national average has decreased by 8%. Councils with similar demographics have also experienced increases, reflecting the ageing populations in rural areas that require significant unplanned hospital visits.
- whilst child poverty has decreased by 13% over ten years, the improvement is around 11% less than the Scottish average, reflecting the pressures arising from having some of the lowest household incomes in Scotland.
- out of work benefits have also decreased, by 9.6%, but 16% less than the rest of Scotland reflecting the lower than average employment opportunities, evidenced by the higher than average number of self-employed.

120. Improving the local economy is a priority for the Council, having identified that the area is not attractive to businesses in setting up operations in the area. The Council and Business Gateway continue to offer grants and advice to businesses starting out to help improve the local economy. Additionally, the recently agreed City Deal is expected to bring investment to the area.

121. We found the Council's performance reporting to be of good quality with engaging content through use of infographics and case studies to evidence the achievement of outcomes. Under the recently published Community Plan (Local Outcomes Improvement Plan) a range of performance indicators have been established to allow progress in achieving Outcomes to be monitored. Delivery and performance of the Community Plan will be monitored by the Community Planning Strategic Board. The introduction of area partnerships and a new five-year Corporate Plan makes clear the public have a part to play in ensuring resources are used wisely. It has scope to increase the Council's engagement with citizens to ensure their concerns and suggestions are communicated to the Council so it can improve service provision. The Council sees the provision of services via online portals as a way of improving service delivery, in a way that is convenient to citizens.

122. The Council has gone through significant organisational change over the last ten years, most recently this has involved improving their digital infrastructure and online service offerings as part of the overall Corporate Transformation Project. To date this has resulted in a new accounting system, improved Broadband connectivity and online services for some aspects of benefits and council tax. Moving forward, as part of the updated Corporate Plan, the Council intends to provide more services, advice and support to citizens online in order to engage with citizens in the most cost effective and efficient manner. This will be progressed largely through the Council's Digital Customer Access project as part of the Corporate Transformation Programme (see paragraph 68). However there have been significant delays with this project which was initially intended to have been completed during 2017.

123. We found that the Council is committed to allocating its resources as efficiently as possible to ensure that services offered improve outcomes for its citizens.

Statutory Performance Indicators (SPIs)

124. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

125. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

126. We reviewed the work of Internal Audit on performance management and concluded that the Council's arrangements for publication are satisfactory.

Housing benefits performance work

127. We performed a risk assessment of the Council's housing benefits service in August 2017. The risk assessment identified six risk areas. The council prepared an action plan to address the risks identified and this was reported to the Audit and Scrutiny Committee in January 2018.

128. We are satisfied that the actions taken by the Council in response to the risk assessment will address the identified risks. Although we will continue to monitor the council's performance as part of our regular review of the DWP's published performance statistics in respect of new claims and change events, we are not planning further scrutiny at this stage. We will carry out a full review of the council's performance during our next round of risk assessments in approximately 18 to 24 months.

National performance audit reports

129. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 4](#).

130. The Council has good arrangements in place for considering national reports issued during the year, with the reports being considered by the Audit and Scrutiny Committee.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Non-current Assets</p> <p>Our work identified several non-current assets with net book values that should have been depreciated. This resulted in non-current assets being overstated by £2.13 million.</p>	<p>The Council should ensure that all assets in use are appropriately included in the correct system for depreciation to be automatically calculated.</p> <p>Exhibit 3</p>	<p>Agreed</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31/3/19</p>
2	<p>Pension Scheme valuation</p> <p>The Council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were lower than actual returns.</p> <p>Although the difference in 2017/18 was not material, there is a risk that in future years there is a larger difference between the estimated and actual values.</p>	<p>The Council should ensure that asset values reported are as accurate as possible and that any potential differences due to timing of information are adequately considered.</p> <p>Exhibit 3</p>	<p>Agreed. The Council will continue to engage actively with its Custodian and its fund managers to ensure asset valuations are as current and accurate as possible</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31/3/19</p>
3	<p>Payroll Creditors</p> <p>The creditors figure in the balance sheet included several large balances relating to payroll amounts. It was not clear from the supporting workings what these figures related to or that they were correctly classified as creditors. Council officers carried out a significant amount of work in order to confirm the correct</p>	<p>The Council should ensure that there is appropriate supporting evidence available to support credit balances included in the balance sheet and carry out timely review of the creditors ledger to identify and correct for unexpected amounts.</p> <p>Exhibit 3</p>	<p>Agreed this was a temporary problem with coding following the introduction of Business World. Work to reconcile payroll creditors and improve working paper supporting information has now been undertaken.</p> <p>Responsible officer Chief Financial Officer</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	position at the year end.		Agreed date 31/10/18
4	<p>Savings</p> <p>The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2017/18 continued to be achieved on a non-recurring basis.</p> <p>There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.</p>	<p>The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.</p> <p>Paragraph 44</p>	<p>Narrative on agreed action. Agreed. It is recognised this is a key risk for the council and the delivery of necessary savings on a permanent basis as quickly as possible is a key priority for the Council Management team</p> <p>Responsible officer Chief Executive</p> <p>Agreed date 31/9/18</p>
5	<p>Internal Controls</p> <p>The system of internal controls at the Council was affected by the introduction of a new financial system, Business World, from the start of April 2017. Audit work identified several weaknesses resulting from the new system and consultants have been working with the Council to address issues with the system.</p> <p>Although many issues have been resolved during the year, there is a risk that remaining system weaknesses are not addressed which could impact on budgetary control and financial reporting.</p>	<p>The Council should ensure that work to address issues with the financial system is completed as soon as possible.</p> <p>Paragraph 51</p>	<p>Agreed. This work will now be undertaken following the upgrade of Business World to Milestone 7.2</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31/3/19</p>
6	<p>Digital Transformation</p> <p>The Digital Transformation element of the Council's transformation programme encountered several issues during the year, including problems with the introduction of Business World and the delay in implementing Digital Customer Access.</p> <p>There is a risk that planned efficiencies from improved services are not realised.</p>	<p>The Council should ensure that arrangements are in place to correct issues and deliver the planned changes. It should also make sure that the lessons learned are considered for future projects.</p> <p>Paragraph 73</p>	<p>A lessons learned workshop has been undertaken with CGI. The main issues have been reported to CMT and the Audit committee</p> <p>Responsible officer Chief Executive</p> <p>Agreed date 31/9/18</p>
7	GDPR	<p>The Council should ensure that work on complying with</p>	Agreed



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. The regulation contains significantly changed data protection concepts. The Council has taken steps to ensure it complies with the new regulations, however there is still work to be done, including completing information asset registers and mandatory training for staff.</p> <p>There is a risk that the Council does not fully comply with the new requirements and incurs significant fines as a result.</p>	<p>GDPR requirements is completed as soon as possible.</p> <p>Paragraph 103</p>	<p>Responsible officer Service Director Regulatory Services</p> <p>Agreed date 31/12/18</p>
8	<p>Following the Public Pound</p> <p>The Council's Following the Public Pound guidance and Financial Regulations have not been updated to take account of changes in guidance and operating processes at the Council.</p> <p>There is a risk that the existing guidance is no longer relevant and the Council is not ensuring it is delivering value for money.</p>	<p>The Following the Public Pound guidance and Financial Regulations should be updated.</p> <p>Paragraph 115</p>	<p>Agreed</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31/10/18</p>
Follow up of prior year recommendations			
b/f	<p>1. Charitable trust assets</p> <p>Our audit work on the Council's seven charitable trusts noted issues with the identification and valuation of assets included in their accounts.</p> <p>There is a risk that the values of assets in the trusts' accounts are not accurate.</p>	<p>The Council should carry out a review of trusts assets to ensure that they are being accurately reported.</p>	<p>Assets have continued to be reviewed during the year and additional trust assets identified.</p> <p>See paragraph 20.</p> <p>Partly complete.</p>
b/f	<p>2. Group accounts</p> <p>The figures in the Council's group accounts are based on the unaudited accounts for the components included in the group.</p> <p>There is a risk that the figures are not accurate and that the audited accounts of the</p>	<p>The Council should request that audited accounts for the group entities are received earlier to allow audited figures be used for consolidation into the group accounts.</p>	<p>Management requested that audited accounts from group components were provided in time for consolidation into the group accounts.</p> <p>The 2017/18 group accounts were based on audited group entities accounts.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	entities could be significantly different from the unaudited figures used.		Action complete.
b/f	<p data-bbox="261 600 395 629">3. Savings</p> <p data-bbox="261 645 628 831">The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2016/17 was achieved on a non-recurring basis.</p> <p data-bbox="261 846 628 994">There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.</p>	The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.	See point 4 above
b/f	<p data-bbox="261 1077 528 1106">4. Financial planning</p> <p data-bbox="261 1122 628 1397">Although the council has a five year financial strategy, in line with good practice, which is regularly reviewed and considered as part of annual budgeting, the strategy does not include longer term scenario planning in line with best practice.</p>	We would recommend that a degree of longer term scenario planning is included within the budgeting process.	<p data-bbox="1059 1077 1390 1227">The budget for 2018/19 presented to the Council in February 2018 included scenario planning over a 10 year period.</p> <p data-bbox="1059 1243 1257 1272">Action complete.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>Although we have not identified any specific risks of management override relating to the council, ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>No significant transactions outside the normal course of council business were identified.</p>
<p>2 Risk of fraud over income</p> <p>Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Sample testing of income transactions confirmed that these were in the normal course of business.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over income.</p>
<p>3 Risk of fraud over expenditure</p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Review of management's progress on analysing National Fraud Initiative matches.</p> <p>Review of internal audit work on systems of internal control.</p> <p>Assessing the overarching controls in grant schemes.</p> <p>Detailed testing of expenditure including housing benefit transactions.</p>	<p>Sample testing of expenditure transactions to confirm that these were in the normal course of business.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of</p>	<p>Completion of 'review of the work of an expert' for the</p>	<p>Our work on the review of the professional valuer confirmed that</p>

Audit risk	Assurance procedure	Results and conclusions
<p>subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>professional valuer. Focused substantive testing of key areas.</p>	<p>we could rely on the asset valuation information being provided. Our conclusion is that the estimates and judgements used are appropriate.</p>
<p>5 New financial system</p> <p>The council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including difficulties with the production of financial monitoring information from the system and manual intervention required to process some transactions.</p> <p>There is a risk that financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the council's system of internal controls and the preparation and audit of the financial statements.</p>	<p>Review of internal audit work on the systems of internal control. Testing of the operation and effectiveness of the controls in place over the system.</p>	<p>We tested the controls in place over the new financial system, including using the work of internal audit. Findings of this work were reported to the Audit and Scrutiny Committee in June 2018 in our interim Management Report.</p>

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

<p>6 ICT transformation</p> <p>The council outsourced its ICT services to an external partner, CGI, from October 2016 as part of a 13 year contract. As part of this arrangement CGI had appointed another supplier, Agilisys, to implement parts of its digital transformation programme including the Digital Customer Access Project. However Agilisys' proposed solution for the project did not meet the council's requirements and during 2017 the council requested that CGI terminate the contract with Agilisys.</p> <p>There is a risk that the digital transformation programme is not delivered effectively and that planned efficiencies from improved services are not realised.</p>	<p>Review the effectiveness of governance and risk management arrangements relating to the ICT contract. Comment in Annual Audit Report.</p>	<p>See comments in paragraphs 70 to 73.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>7 Risk registers</p> <p>The council maintains a corporate risk register, and members of the audit & scrutiny committee receive regular presentations regarding risk management arrangements within services. However members do not receive regular updates on the risks that are included on the corporate risk register during the year.</p> <p>There is a risk that members are not aware of the significant risks identified at the council, or the actions being taken to mitigate these risks.</p>	<p>Monitor risk reporting to committee during the year.</p> <p>Comment in Annual Audit Report.</p>	<p>Reporting of risk arrangements to the audit & scrutiny committee has started to include details of the key risks included in the risk registers at recent meetings.</p> <p>We will continue to monitor reporting during 2018/19.</p>
<p>8 Financial sustainability</p> <p>The council has a financial strategy covering the 5 year period 2018/19 – 2022/23. This strategy includes the requirement to identify £32m of savings over the period of the plan.</p> <p>There is a risk that the council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.</p>	<p>Review budget setting process and monitor updates provided to members.</p> <p>Comment in Annual Audit Report.</p>	<p>See point 4 above</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £75,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet		Movement in Reserves Statement
		Dr £000	Cr £000	Dr £000	Cr £000	
1	Non current assets				(2,130)	
	Service expenditure	2,130				
2	Creditors				(136)	
	Expenditure	136				
Net impact		2,266			(2,266)	

Notes:

Entry 1 relates to non current assets in the balance sheet which have net book values by no remaining useful lives.

Entry 2 relates to payroll creditor balances which were not accurately identified in the ledger

Appendix 4

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Scottish Borders Council

2017/18 Annual Audit Report

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Scottish Borders Cares LLP and Scottish Borders Supports LLP

Audit highlights memorandum
For the year ending 31 March 2018
31 August 2018

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Important notice - about this report

We have prepared this report in accordance with our audit engagement letter with Scottish Borders Cares LLP and Scottish Borders Supports LLP (together "SB Cares"), dated 23 March 2016.

Purpose of this report

This report is made to the management of SB Cares in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

Restrictions on distribution

This report is subject to disclosure restrictions as set out in our Engagement Letter.

Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the LLPs' financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the LLPs' members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

We have also aimed to use our knowledge of the business gained during our audit work to make useful comments for management to consider. However, our audit work is designed to enable us to form our opinion on the financial statements, viewed as a whole. As a result, the points raised should not be relied upon to disclose all internal control matters that may exist across the LLPs, nor to disclose errors that are not material in relation to the financial statements.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report summarises our work in relation to the audit of the financial statements of Scottish Borders Cares LLP and Scottish Borders Supports LLP (together “SB Cares”) for the year ended 31 March 2018.

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

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Area	Summary observations	Analysis
Accounting and audit matters		
Significant risks	We have considered the inherent significant risks that International Standards of Auditing (“ISAs”) require us to raise with you: <ul style="list-style-type: none"> — revenue recognition: and — management override of controls. Through the course of audit work, we also concluded management judgements made in respect of accounting for pensions to be a significant risk. Our findings in respect of this are presented on page 6.	Page 6
Other focus areas	We reviewed the accounting treatment around capitalisation of tangible fixed assets. For these matters, we are content with management’s judgements and the accounting treatment adopted.	Page 7
Accounting policies	There are no accounting policy changes in year. We held discussions with management regarding the impact of future changes associated with the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. We do not identify any significant impact expected to result from these changes.	-

Headlines (Continued)

We anticipate issuing unqualified audit opinions on the 2017-18 financial statements of the LLPs following their approval by the Members.

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Area	Summary observations	Analysis
Audit conclusions		
Audit report	We anticipate issuing unqualified audit opinions on the 2017-18 financial statements of the LLPs following their approval by the Members.	Page 10
Year-end process	The financial statements and supporting documentation were received by the agreed dates. The documentation provided was of a good quality.	Page 10
Governance and financial control		
Internal control	Our testing of the design and operation of controls over financial processes and procedures confirms that controls relating to those financial systems and procedures that we have sought to rely on are designed appropriately and operating effectively. We have raised a recommendation in one area as detailed in Appendix 2.	Page 12 and Appendix 2
Mandatory communications		
Matters to report	We have no significant matters to report in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.	Page 14
Independence	We have not identified any independence issues	Appendix 1



Accounting and Audit Matters

Our perspective on the key accounting judgements made by management

Accounting policies and significant risks

International Standards on Auditing require us to make a rebuttable presumption that both the fraud risk from revenue recognition and management override of controls are significant risks.

We rebutted the revenue recognition fraud risk as noted in our audit strategy document as there is no management judgement involved in when to recognise income.

We have satisfactorily carried out audit work to address the risk of management override of controls.

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Accounting framework and policies	
<p>Financial statements were prepared for Scottish Borders Cares LLP and Scottish Borders Supports LLP in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.</p> <p>We are satisfied that the accounting policies adopted under FRS 101 are appropriate for the business and have been applied consistently.</p> <p>We held discussions with management regarding the impact of future changes associated with the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. We do not identify any significant impact expected to result from these changes.</p>	
Significant risks	
<p>Revenue recognition – fraud risk</p>	<p>As set out in our audit strategy document, we did not consider fraudulent revenue recognition to be a significant risk for SB Cares as there is limited judgement in the assessment as to when to recognise income within the significant income streams.</p> <p>We performed testing of key controls, vouched the management fee income to confirmations from Scottish Borders Council, performed an analytical review of income and carried out sales cut off testing to verify income has been recognised in the correct period.</p> <p>We are comfortable that revenue has been recognised correctly.</p>
<p>Management override of controls</p>	<p>To address this risk, we performed substantive testing of journal entries during the year and at the year end, undertook a review of unusual transactions in the year, made enquiries with employees outside the finance department, incorporated audit tests of an unpredictable nature, undertook testing of controls, including ‘higher level’ controls and reviewed management’s accounting estimates for bias.</p> <p>Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.</p>

Accounting policies and significant risks (continued)

SB Cares reported a net pension liability.

We consider this a significant audit risk due to the size of the balance and the inherent estimation uncertainty.

We increased this audit issue from an audit focus area to a significant risk. This reflects a reassessment of the risk of misstatement resulting from external factors, including changes to valuations at other local authority pension schemes.

From our audit work performed, we are satisfied with the pension valuation and its presentation within the accounts.

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Significant risks (continued)

Retirement benefits

SB Cares accounts for its participation in the Scottish Borders Council Pension Fund (“the Pension Fund”) in accordance with the provisions of FRS 101 and therefore recognises the actuarial valuation of the pension liabilities in respect of its share of the Pension Fund. The Funds are valued by actuaries, the rates of contributions being determined by the trustees on the advice of the actuaries. The LLP’s actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.

While SB Cares have an underlying guarantee from Scottish Borders Council for the present and future pension obligations and liabilities incurred from 1 April 2015, the LLPs must report the liabilities in the annual financial statements as required by FRS 101. Due to the materiality of the pension liability and the effect of estimates on the calculation of this balance, we will assure ourselves that the assumptions that underpin the liabilities stated in the annual statements are appropriate. We consider this to be a significant audit risk due to the size of the balances and the inherent estimation uncertainty.

To address this risk, we assessed the appropriateness of the assumptions used in the Actuary valuation, performed substantive procedures over the data inputs of the scheme, made enquiries with the Administering Body of the Scheme, performed a review of the Pension Scheme annual statements against the Triennial valuation as at 31 March 2017 and performed substantive procedures over the inclusion of pension adjustments and disclosures included within the Actuary valuation, to the underlying account records.

We reviewed the guarantee provided by Scottish Borders Council to SB Cares and are satisfied that this mitigates an operational risk to SB Cares in respect of their ability to fund the pension liability in the future.

Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

Our actuarial specialists reviewed the actuarial assumptions used by the LLP’s actuary in the pension scheme valuation and found them to be in line with our expected ranges. Details of key actuarial assumptions are provided in Appendix 3.

The closing pension liability moved from £3.6 million as at 31 March 2017 to £4.3 million as at 31 March 2018. This was primarily due to changes arising in light of the Triennial valuation of the scheme being completed to 31 March 2017.

No employee benefits liability was transferred to SB Cares on incorporation. It was agreed that because the liability was accrued whilst these employees were employed by Scottish Borders Council, the liability which existed at the date of transfer would stay with the Council. Responsibility for any prospective employee benefits liability was transferred to SB Cares from 1 April 2015.

Other focus areas

SB Supports LLP has tangible fixed assets of £0.8m at 31 March 2018.

We performed testing over fixed asset movements in the year and are satisfied that these are recorded and disclosed appropriately.

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Fixed assets

SB Supports LLP had £678,000 of tangible fixed assets on its balance sheet as at 31 March 2017. Additions in the year of £270,000 included £222,000 of Rehabilitation equipment. Depreciation of £99,000 was charged in the year, with no disposals. The resulting net book value of assets at 31 March 2018 is £848,000.

We performed testing using sampling techniques in order to provide coverage across the tangible fixed assets additions population in 2017 and 2018. We vouched additions to source documentation and for assets "in the field" we also considered how SB Cares had comfort that the asset had not been impaired.

We reviewed the accounting for and disclosures surrounding tangible fixed assets and confirmed that these are in line with relevant accounting standards.



Audit Conclusions

Our conclusions following our audit procedures

Audit conclusions

We anticipate issuing an unqualified audit opinion on the financial statements of the LLPs for the year ended 31 March 2018.

The LLPs have appropriate arrangements in place for the compilation of the financial statements and associated working papers, and to deal with the associated external audit process.

The draft Members' Reports were provided on a timely basis.

Audit conclusions

Our audit work is substantially complete pending receipt of management's representations, receipt of an external bank confirmation, and update of subsequent events. Following approval of the financial statements by the Members we anticipate issuing an unqualified opinion on the financial statements of each LLP as at 31 March 2018.

There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

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

Financial statements preparation

- Draft financial statements, along with appropriate supporting documentation, were provided at the start of the audit.
- The standard of documentation in support of the draft financial statements was good and there was evidence of accountability and ownership of working papers. Management responded to audit enquiries and provided supporting documentation as necessary.
- Some additional reclassifications in presentation and text identified by us were made to improve the overall disclosures within the financial statements. These related to wording within the Members' Report and other minor disclosures.
- The financial statements include minor restatements to prior year figures within the notes to the accounts in relation to; Fixed assets of SB Supports LLP and the number of FTE within SB Cares LLP. We have reviewed these disclosures and conclude that these restatements are appropriate.



Governance and Financial Control

Our overall perspective on your narrative reporting
Update on controls findings from our audit

Internal control arrangements

Corporate governance arrangements are generally appropriate for organisational decision making, although a number of improvements to be made were identified in the Internal Audit annual report for 2017-18.

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<p>Governance arrangements</p>	<p>The LLPs have two designated members, the Council and SBC Nominees Limited. The SB Cares Board oversees the governance of the organisations and the two designated members are represented on the Board. The Board receives regular financial and non-financial performance updates from management to ensure that there is ongoing scrutiny of performance. A Board Code of Conduct is in place, supported by a register of interests.</p> <p>There are appropriate governance arrangements in place, including regular meetings of the Board and of the Council Audit and Risk Committee and Strategic Governance Group.</p>
<p>Internal controls</p>	<p>Our audit approach does not rely on IT controls therefore we do not perform testing over the control environment of IT system applications, which are managed by Scottish Borders Council. We performed testing of payroll authorisation as this is completed manually. We do not raise any control recommendations from our work in this area.</p> <p>From our testing over financial reporting, it was noted that as in prior year there is no formal journal authorisation control. We reiterate our prior year recommendation over this point in Appendix 2. For the purpose of the audit, we perform risk-based substantive testing over journals.</p>
<p>Members' Report</p>	<p>The financial statements form part of the Members' reports for the year ended 31 March 2018. We are required to consider other information, which consists of only the Members' report, published along with the financial statements. We have reviewed the Members' report for each of the LLPs and are satisfied that these are in line with our understanding of the arrangements and practices operated by the organisation.</p>
<p>Going concern</p>	<p>We concur with management's assessment of SB Cares as a going concern. We considered the agreement with Scottish Borders Council which provides for the funding to continue except in the event of liquidation of the LLP. Together with our understanding of the entities' future plans, we are satisfied that the going concern basis of preparation is appropriate.</p>



Other Matters

Mandatory Communications

We suggested changes to some wording within the Members' Report. There are no unadjusted audit differences.

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Area	Key Content	Reference
Adjusted audit differences – Adjustments made as a result of our audit	Our audit work has not identified any adjusting audit differences.	-
Unadjusted audit differences – Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our audit partner and audit staff.	Appendix 1
Draft management representation letter	There are no changes to the standard representations required for our audit.	-



Appendices

Auditor Independence

Assessment of our objectivity and independence as auditor of SB Cares LLP and SB Supports LLP (“together the LLPs”)

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

We have considered the £22,000 fees charged by us to the LLPs for professional services provided by us during the reporting period.

There are no non audit fees chargeable to the LLPs.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

This report is intended solely for the information of the Board and the LLPs and should not be used for any other purposes.

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

Yours faithfully

KPMG LLP

Appendix two

Action plan

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

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding and risk	Recommendation	Agreed management actions
<p>1 Journals authorisation</p> <p>There is no formal segregation of duties within the journals authorisation process, therefore the same individuals can both post and approve journals on the TechOne general ledger system. There is a risk that individuals may post incorrect or inappropriate journals, with errors not detected on a timely basis.</p> <p>It is noted that there are mitigating controls in place to reduce this risk including the preparation of monthly balance sheet reconciliations and a detailed review of the monthly management accounts which are designed to detect irregularities.</p>	<p>It is recommended that a review control incorporating segregation of duties into the process is implemented.</p>	<p>Grade three</p> <p>SB Cares will investigate with Tech One the opportunity to introduce formal segregation of duty between input and release of journals. Should this not be possible within the software alternative procedures will be developed to formalise the checking and signing off of journals.</p> <p>Responsible officer: Lynn Mirley, Finance & Information Manager</p> <p>Implementation date: 31 January 2019</p>

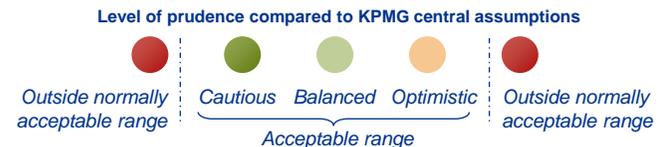
Appendix three

Defined benefit pension scheme

In respect of employee benefits, each of the assumptions used to value SB Cares net pension liability are within an acceptable range of KPMG's expectations. We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of FRS 101. We set out below the assumptions in respect of the defined benefit scheme.

Employer: SB Cares		OVERALL ASSESSMENT OF ASSUMPTIONS FOR FRS 101			
Fund: Scottish Borders Council Pension Fund		The overall set of assumptions proposed by the Employer can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 28 years and within our normally acceptable range.			●
Fund Actuary: Barnett Waddingham					<i>balanced</i>
Assumption	SB Cares	KPMG central	Commentary	Assessment vs. KPMG central	
Discount rate	2.60%	2.51%	The proposed assumption is considered to be optimistic but within our normally acceptable range.	●	
Pension Increase Rate	2.30%	2.12%	The proposed assumption is considered to be cautious but within our normally acceptable range.	●	
Salary increases	CPI plus 1.0%	CPI plus 0% to 2.0%	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable on the basis of management being satisfied with the appropriateness of the short term salary increase assumption and that the long term assumption used is reflective of management's expectations of future salary growth for the organisation.	●	
Life expectancy at retirement	23.3 / 21.6	23.5 / 22.1	The life expectancies are consistent with those used in the most recent LGPS valuation and are considered acceptable.	●	
Males currently aged 45 / 65	26.0 / 24.2	25.4 / 23.9			
Females currently aged 45 / 65					

Due to the degree of estimation included we recognise there is a range of generally acceptable values for each assumption.





The contacts at KPMG in connection with this report are:

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SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2017/18

Report by Chief Financial Officer
SCOTTISH BORDERS COUNCIL

25 SEPTEMBER 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report presents Members with copies of the Council's audited Annual Accounts for 2017/18.**
- 1.2 The audit appointment of Audit Scotland for Scottish Borders Council accounts includes the requirement to provide an auditor's report for the Council as well as related charities. KPMG has continued to provide the external audit of the Council subsidiaries SB Cares, SB Supports and Bridge Homes which are not registered charities. KPMG has concluded their Audit and have provided their audit opinion with no issues raised and no matters to report.
- 1.3 2017/18 represents the second year of Audit Scotland undertaking the External Audit of the Council's Annual Accounts with the process now completed. Audit Scotland has prepared the Annual Audit Report as attached on this agenda and has provided an unqualified independent audit opinion.
- 1.4 The Annual Audit Report summarises Audit Scotland's conclusions, including:
- An unqualified audit opinion
 - Audit Scotland concur with management's accounting treatment and judgements;
 - Audit Scotland concluded positively in respect of financial management, financial sustainability, governance and transparency and value for money.
- 1.5 Audit Scotland identified eight recommendations for improvement requiring action and these have been accepted by management and will be enacted within the agreed timescales.
- 1.6 As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP, SB Supports LLP and SB Cares LLP and Scottish Borders Council's Pension Fund have been presented to the Audit and Scrutiny Committee prior to signature.

2 RECOMMENDATIONS

- 2.1 **It is recommended that Council approve the following audited Accounts:**
- (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2018;**
 - (b) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2018;**
 - (c) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2018;**
 - (d) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2018;**
 - (e) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2018;**
 - (f) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2018;**
 - (g) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2018;**
 - (h) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2018;**
 - (i) the SB Supports LLP audited Annual Accounts for the year to 31 March 2018;**
 - (j) the SB Cares LLP audited Annual Accounts for the year to the 31 March 2018; and**
 - (k) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2018.**

3 BACKGROUND

- 3.1 The various sets of unaudited accounts for 2017/18 were submitted to Audit Scotland and KPMG, the External Auditors, before the statutory deadline of 30 June 2018, following presentation of the draft accounts to the Audit and Scrutiny Committee at the June 2018 meeting. External Auditors began their detailed audit work in July 2018 and this was completed by the beginning of September 2018.
- 3.2 As part of the statutory requirements the Council is required to advise the public of their right to inspect and object to the various sets of accounts and their supporting papers and make the documents available for inspection. This process was undertaken following the timetable contained in the 2014 Regulations and the inspection period commenced on 2 July 2018. A number of objections from one member of the public were received. Audit Scotland considered these could potentially constitute a valid objection to the accounts and considered the matters raised accordingly. They concluded that the objections raised did not identify any issues which had an impact on their opinion on the financial statements.
- 3.3 The Council must meet the Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) requirement to have the audited Annual Accounts approved by the local authority or the Committee with responsibility for audit or governance prior to signature on the 30 September 2018. As a result this report was presented to the Audit and Scrutiny Committee on the 24th September 2018 and is subsequently being presented to this full Council meeting on the 25th September 2018.
- 3.4 Following approval, the 2014 Regulations have the following requirements as set out in Part 3 Section 10 (3):
- Immediately **following the approval of the Annual Accounts** for signature, the statements which form part of those accounts are to be signed and dated as follows—*
- (a) *the management commentary by the Section 95 Officer, the Chief Executive and the Leader of the Council;*
 - (b) *the statement of responsibilities by the Leader of the Council and the Section 95 Officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;*
 - (c) *the annual governance statement by the Chief Executive and the Leader of the Council;*
 - (d) *the remuneration report by the Chief Executive and the Leader of the Council; and*
 - (e) *the balance sheets by the Section 95 Officer, to authorise publication of the financial statements.*
- 3.5 These requirements apply to the Annual Accounts of the Local Authority and not to the charity or limited liability partnership accounts, although these have similar signatory requirements. The Section 95 Officer for Scottish Borders Council is the Chief Financial Officer.
- 3.6 This report presents audited copies of:
- **Scottish Borders Council** Annual Accounts for year ending 31 March 2018;
 - **Scottish Borders Council Common Good Funds** (Charity SC031538) Annual Accounts for the year to 31 March 2018;
 - **SBC Welfare Trust** (Charity SC044765) Annual Accounts for the year to 31 March 2018;
 - **SBC Education Trust** (Charity SC044762) Annual Accounts for

the year to 31 March 2018;

- **SBC Community Enhancement Trust** (Charity SC044764) Annual Accounts for the year to 31 March 2018;
- **Ormiston Trust for Institute Fund** (Charity SC019162) Annual Accounts for the year to 31 March 2018;
- **Scottish Borders Council Charity Funds'** (Charity SC043896) Annual Accounts for the year to 31 March 2018;
- **Bridge Homes LLP** Annual Accounts for the year to 31 March 2018;
- **SB Supports** Annual Accounts for the year to 31 March 2018;
- **SB Cares** Annual Accounts for the year to the 31 March 2018;
- **Scottish Borders Council's Pension Fund** Annual Accounts for year ending 31 March 2018.

3.7 It is a statutory requirement to publish all of the sets of audited annual accounts, and the 2014 Regulations require this to be done no later than 31st October 2018. In addition those relating to registered charities are required to be submitted to the Office of the Scottish Charity Regulator (OSCR).

4 EXTERNAL AUDITOR'S ANNUAL REPORT 2016/17

4.1 Audit Scotland and KPMG have now completed their audits and all of the Annual Accounts have received an unqualified independent audit opinion.

4.2 KPMG has concluded their Audit of SB Cares, SB Supports and Bridge Homes and have provided their audit opinion with no issues raised and no matters to report.

4.3 Audit Scotland's associated Annual Audit Reports of Scottish Borders Council, Pension Fund and subsidiary charities are presented on this agenda. As well as being unqualified, the report expresses the following headlines:

- Audit Scotland concur with management's accounting treatment and judgements;
- Audit Scotland concluded positively in respect of financial management, financial sustainability, governance and transparency and value for money.

4.4 The Scottish Borders Council Annual Audit Report highlighted eight specific recommendations for improvement. The areas in question are shown in Appendix 1 "Action Plan 2017/18" of the External Auditor's Annual Audit Report. The areas identified are:

- The Council should ensure that all assets in use are appropriately included in the correct system for depreciation to be automatically calculated;
- The Council should ensure that Pension Fund asset values reported are as accurate as possible and that any potential differences due to timing of information are adequately considered;
- The Council should ensure that there is appropriate supporting evidence available to support credit balances included in the balance sheet and carry out timely review of the creditors ledger to identify and correct for unexpected amounts;
- The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years;

- The Council should ensure that work to address issues with the financial system (Business World) is completed as soon as possible;
- The Council should ensure that arrangements are in place to correct issues and deliver the planned changes through Digital Transformation. It should also make sure that the lessons learned from the ERP implementation are considered for future projects;
- The Council should ensure that work on complying with GDPR requirements is completed as soon as possible;
- The Following the Public Pound guidance and Financial Regulations should be updated.

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

4.5 The Scottish Borders Council's Pension Fund Annual Audit Report highlighted six recommendations. The areas in question are shown in Appendix 1 "Action Plan 2017/18" of the External Auditor's Annual Pension Fund Audit Report. The areas identified are:

- Officers should prepare working papers directly within the Custodian spreadsheet that allows for linking of data. Where external sources of information are required, this should be clearly referenced;
- Management should ensure that investment asset values reported are as accurate as possible and that any potential differences due to timing of information are adequately considered;
- A process should be developed to ensure the existence of overseas pensioners can be validated;
- All notifications into the Council should be kept and recorded to ensure that all pension payments are stopped timeously when required;
- Procedures should be put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained;
- Sufficient review of standing data input into systems should be carried out to ensure errors are identified and rectified.

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

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

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

5.6 **Rural Proofing**

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

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

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

6 **CONSULTATION**

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

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: 28 June 2017 Audit and Scrutiny Committee
25 September 2017 Audit and Scrutiny Committee

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

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

Scottish Borders Council

annual accounts

for the year to 31 March 2018



Scottish Borders Council

Annual Accounts 2017/18

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Foreword by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2018. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance of the Council in the financial year 2017/18.

2017/18 has been a year of significant change within Scottish Borders Council. Transition from legacy payroll, general ledger and procurement systems to Business World, an integrated Enterprise Resource Planning (ERP) system has been challenging whilst maintaining a 'business as usual' approach.

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

- what we do as a Council;
- what our strategy and priorities are;
- how we are organised to deliver our priorities;
- our financial position for 2017/18;
- key aspects of our performance during 2017/18; and
- our plans for the future.

Highlights of 2017/18

Against a very difficult financial background, the Council has achieved the following during 2017/18:

- ✓ Achieved £12.3m of Financial Plan savings, £7.8m of which were on a permanent basis;
- ✓ Delivered £254.2m of revenue spending within budget;
- ✓ Delivered Capital Investment of £36m in schools, flood protection, roads, lighting and other assets;

- ✓ Undertaken a 5 yearly review of all our Education assets;
- ✓ Delivered back office savings in order to protect front line services in the Borders wherever possible.

Our Plans for 2018/19

The next year presents many opportunities for the Council including:

- the continuation of digital transformation including the realisation of efficiency and process improvement benefits following the stabilisation of Business World (new ERP solution) during 2017;
- a renewed focus on improved communication and engagement with our communities and build on successful current initiatives such as the Locality Bid Fund;
- planning, collaboration, partnership working and a focus on jointly seeking solutions to the challenges we face in the Borders.

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

2017/18 represented the final year of the original 5 year revenue Financial Plan established in 2013/14. During this period from 2013/14 to 2017/18 the Plan has delivered savings of £35.5m alongside significant improvements in performance set out on pages 15 – 24.

Councillor Shona Haslam

**Leader
Scottish Borders Council**

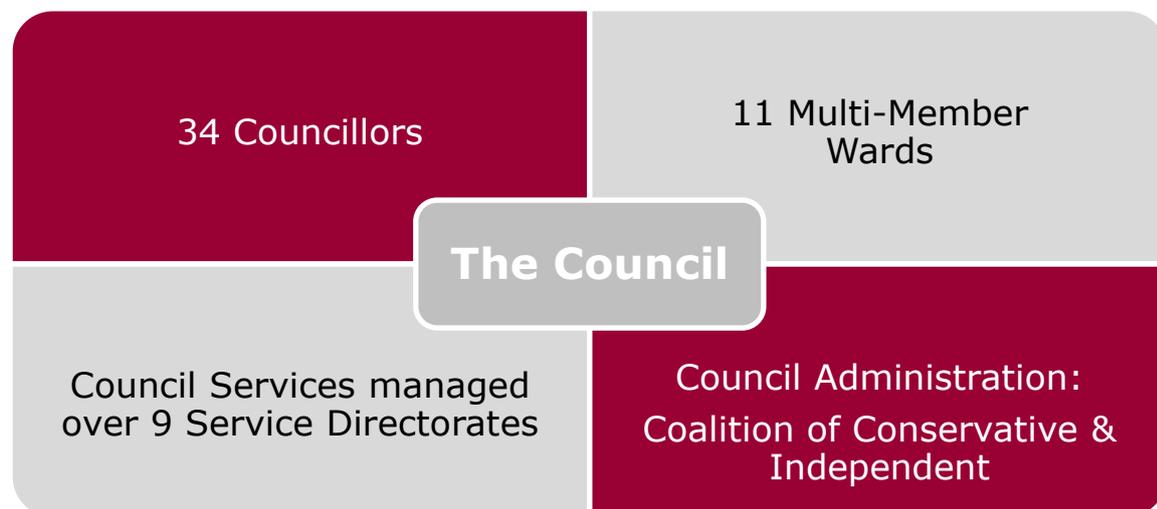
Management Commentary

About Scottish Borders Council



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

Scottish Borders Council



Management Commentary

Scottish Borders Council highlights 2017/18

Locality Bid Fund

Over 130 applications were received from across the Scottish Borders with 61 going forward to the public vote. 36,000 votes were cast across the 5 locality areas which resulted in 18 projects being awarded funding. £208k was allocated to the first round of applications.



Broomlands Primary School new build

With a total budget of £9.7m Broomlands Primary School opened to pupils for the new term in January 2018 with the demolition of the old building now underway.



Langlee Primary School new build

A new £10m Langlee Primary School built on the existing school site opened to pupils in August 2017. The old school has since been demolished.



Launch and ongoing roll out of Business World

Business World (new integrated HR, Finance & Procurement system) was successfully implemented in April 2017 to facilitate efficiency savings and business process improvements.



Partnership working

2017/18 represents the second operational year of the Health & Social Care partnership which has resulted in a fundamentally different way of working with NHS Borders.

Kelso High School

An investment of £21.4m in a new secondary High School in Kelso was delivered on budget and on time in November 2017. The school was revenue funded by the Scottish Government through its Scotland's Schools for the Future programme, which is managed by the Scottish Futures Trust.



Energy Efficiency Programme (EEP)

In 2017/18 EEP has delivered another round of LED upgrades at 22 sites and boiler insulation improvements at a further 20 sites. Installation at 12 sites of photovoltaic energy capture system (PV) is also in progress. Further EEP works include biomass, solar thermal, combined heat and power (CHP), selective lighting to LED, boiler replacement, PV, glazing and energy controls.

Management Commentary

Strategic Direction

Our Vision

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

Source: Corporate Plan 2013 – 2018

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



Financial Strategy

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

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

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

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

Management Commentary

Risk

A Corporate Financial Risk Register was used as the basis for setting reserve levels in 2017/18 and future years. This approach seeks to quantify the risks facing the Council's finances, including over optimistic saving assumptions, unplanned employment and pension cost increases, the failure by managers to enact effective budgetary control, severe weather events, the economic downturn, potential contractual claims and unplanned emergencies in deriving an appropriate level of unallocated balances.

The level of un-allocated general fund balances is informed by an assessment of the risks facing the Council. This approach, despite being subject to an element of informed judgement, reflects the risks inherent in setting the revenue budget, the reasons reserves are held in the first place, the scale and complexity of the organisation and also provides appropriate transparency with regard to the level of balances held. The accumulated financial risk in the 2017/18 Risk Register was assessed to be £10.870m and the projected useable General Fund balance, at £5.638m, was sufficient to cover 52% of risks identified.

Financial Plans

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

2017/18 represented the final year of the 5 year revenue Financial Plan first published in 2013/14. The plan has been amended and updated each year since 2013/14 and to date savings of £35.5m have been delivered in a planned manner. Despite the resource challenges facing the Council and the wider public services the approach to financial planning has so far delivered balanced budgets and small underspends in each year of the plan.

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

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

Equalities Mainstreaming

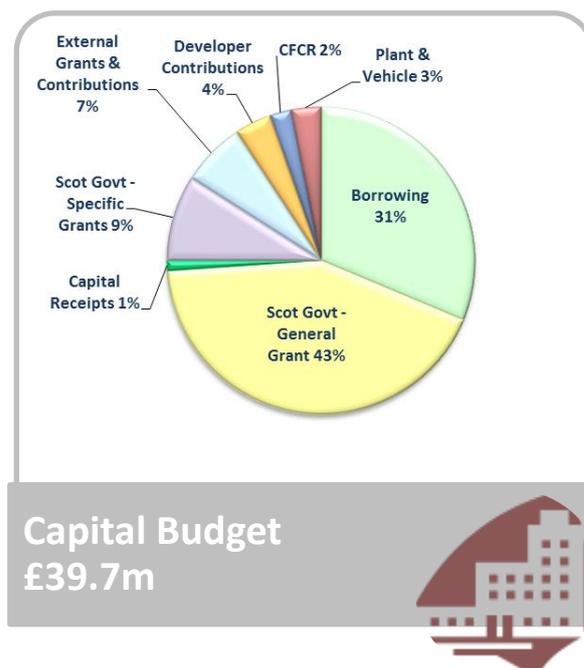
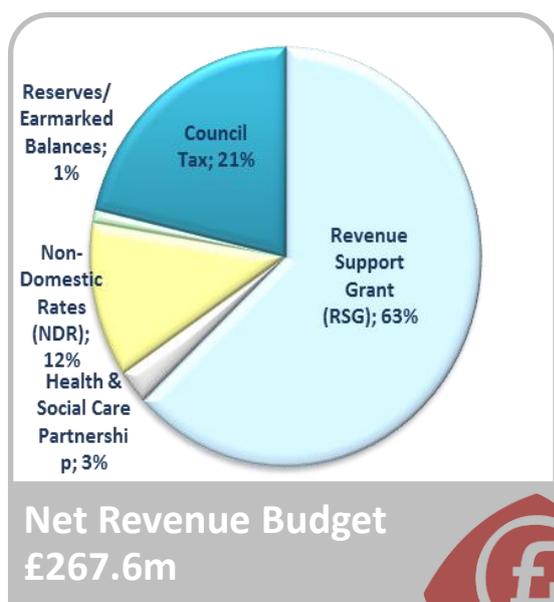
Scottish Borders Council takes a positive approach to equalities and human rights through taking forward the actions in its Mainstreaming Report and Equality Outcomes 2017 – 2021. This is being implemented by:

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

Management Commentary

How are we are doing? - Financial Performance 2017/18 Financial Resources Available

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



Management Commentary

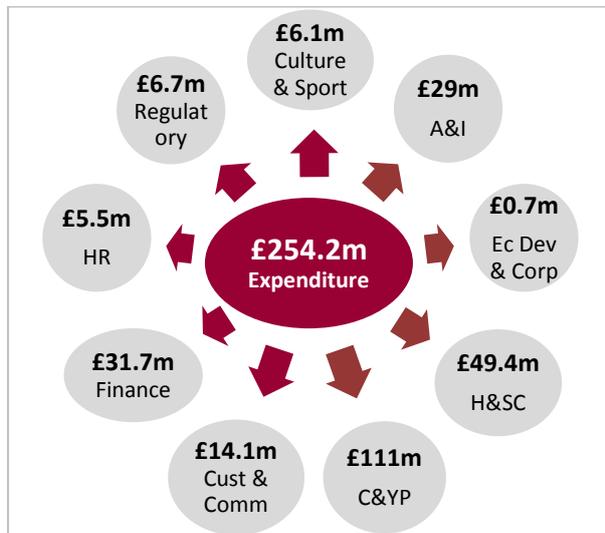
Financial Position at 31 March 2018

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

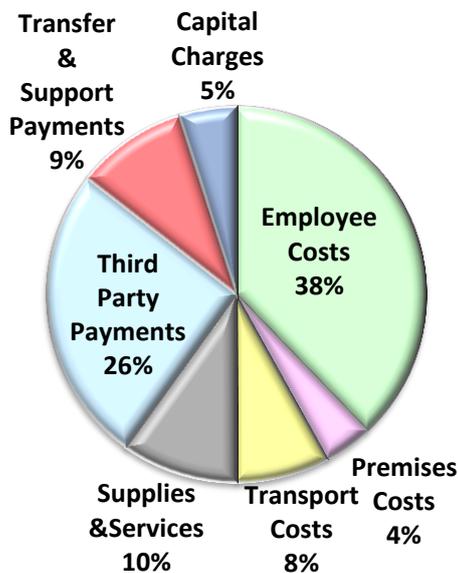
Revenue

The actual outturn for the financial year 2017/18, including funding sources, was a revenue expenditure of £254.2m representing a net underspend of £1.029m (0.4%) against the revised budget.

The following chart analyses the revenue spend by Council department:

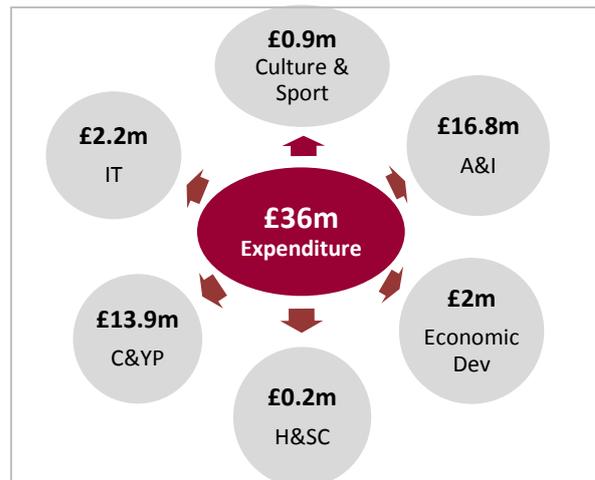


Revenue net expenditure for the year includes income of £122.4m, and gross expenditure of £376.6m as analysed in the chart below:



Capital

The actual outturn for the financial year 2017/18, including funding sources, was a capital expenditure of £36m representing a favourable timing movement of £7.4m (17%) against the revised budget.



The capital programme delivered significant investment in the Scottish Borders during 2017/18 and the following table highlights some of the major projects undertaken:

Asset & Infrastructure

• Roads & Bridge Maintenance	£10.0m
• Flood Protection Works	£2.3m
• Waste Infrastructure	£0.5m
• Land & Property Infrastructure	£2.7m
• Plant & Vehicle	£1.1m

Children & Young People

• Duns Primary School	£0.8m
• Langlee Primary School	£3.4m
• Broomlands Primary School	£6.4m
• Jedburgh Intergenerational Campus	£1.4m
• School Estate Block	£1.2m

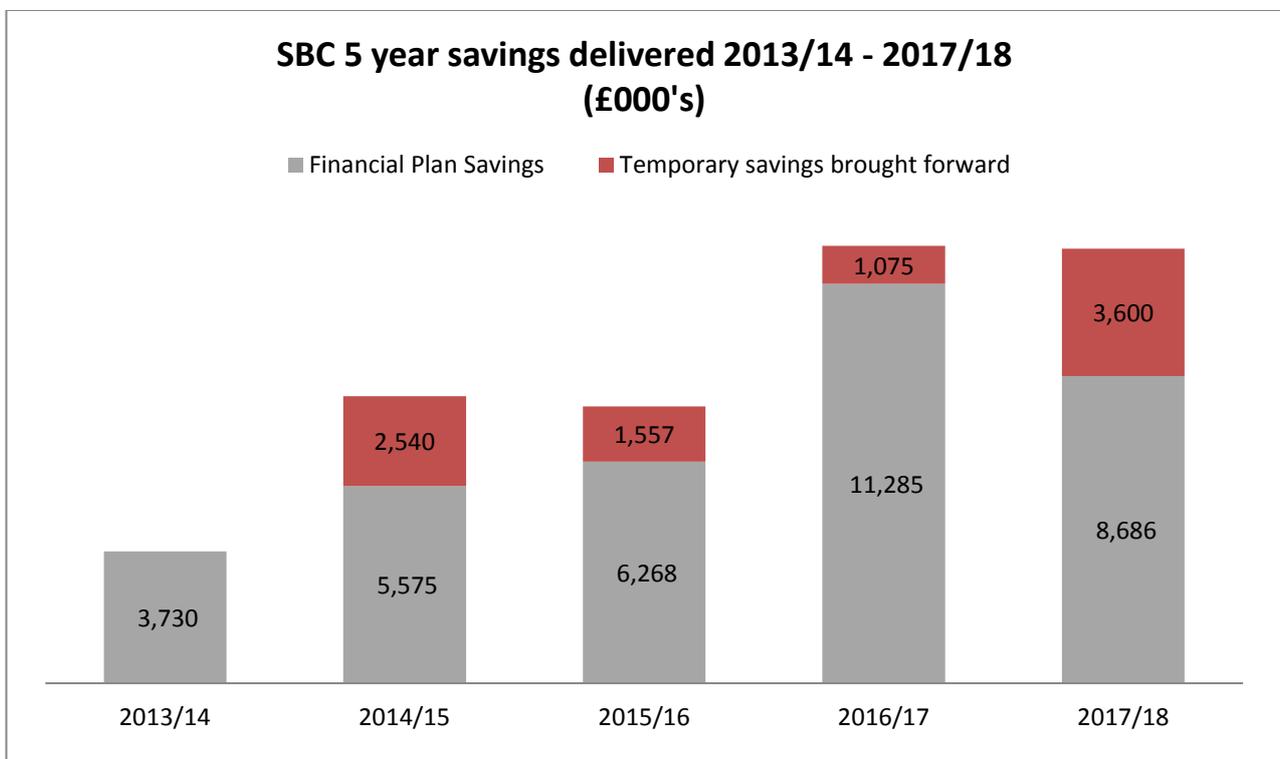
IT/Econ Dev/Culture & Sport

• Hawick Regeneration	£0.7m
• Great Tapestry of Scotland	£0.8m
• ICT Transformation	£2.2m
• Sports Infrastructure	£0.5m
• Sir Walter Scott Court House	£0.2m

Management Commentary

Delivery of Targeted Savings

Overall, Financial Plan savings of £12.286m were delivered during 2017/18 in order to balance the costs of delivering services and the available resources. The regular Budget Monitoring reports to the Executive Committee tracked the delivery of these savings against the Financial Plan proposals. Of the £12.286m delivered in 2017/18, £7.8m (64%) were delivered permanently. The chart below shows the financial plan savings identified in each year along with the savings brought forward from previous years giving the total savings to be delivered each financial year. The chart demonstrates the scale of change undertaken within the Council over the last 5 years. It should be noted as shown below that a significantly greater level of savings were required in 2016/17 and 2017/18 compared to previous years. Ongoing effort will be required going forward to successfully deliver the Financial Plan due to the scale of further savings required in 2018/19 and beyond.



Management Commentary

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 47 shows the accounting cost of providing services rather than the cost of services which requires to be funded by taxation.

Net Cost of Services

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the management outturn reports in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2017/18 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2018. This results in the (statutory accounting) adjusted net cost of services of £289.9m compared with the reported departmental net cost of services of £254.2m. Note 5, page 66 provides additional analysis of the movement between these figures.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 67 to include net gains/losses on disposal and revaluation of assets, interest payable and adjustments for pension costs. These accounting adjustments result in an overall Deficit on the Provision of Council Services for the year of £29.1m.

Other Comprehensive Income and Expenditure

Movement in the Deficit on the Provision of Council Services within the comprehensive Income and Expenditure statement between 2016/17 and 2017/18 of £23.7m can be attributed to impairment and revaluation losses on Educational properties charged to the Comprehensive Income and Expenditure Statement during 2017/18 as part of the rolling revaluation programme.

Following an Actuarial Gain on the Pension Fund Net Assets/Liabilities (£70.5m) and an overall surplus on the revaluation of Property, Plant & Equipment (£53.6m) the Net Comprehensive Income is a surplus of £93.6m (versus a deficit of £69.1m in 2016/17).

Balance Sheet

During 2017/18 there has been significant movement on the Balance Sheet, from a Net Liability position of £2.2m in 2016/17 to a Net Asset position of £91.3m in 2017/18. As with the movement on Other Comprehensive Income and Expenditure detailed above this movement on the Balance Sheet can primarily be attributed to gains arising from the revaluation of the Council's Educational properties and a reduction in the Council's Pension Liability.

Long Term Liabilities have increased in 2017/18 by £32.1m as a result of additional long term borrowing and an increase in deferred liabilities which relates to the new Kelso High School. This has been offset in part by an increase in Other Land and Buildings for the recognition of Kelso High School as an asset on the Council's Balance Sheet.

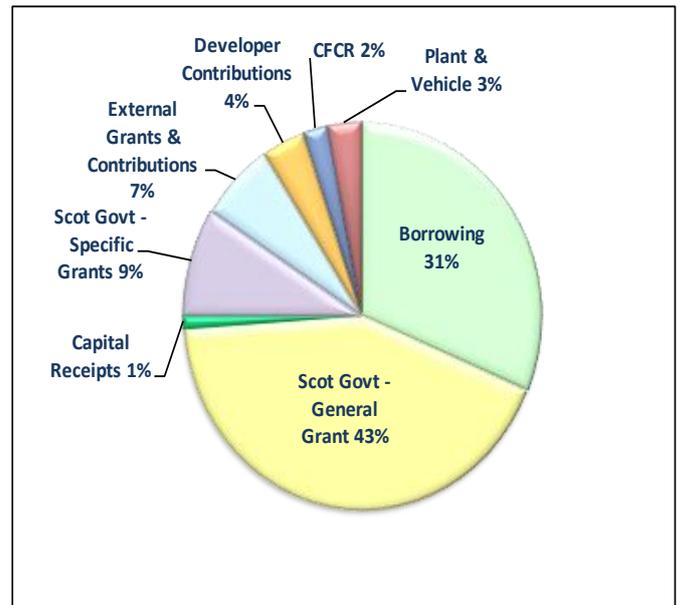
Management Commentary

Capital Financing Requirement

This chart shows the profile of the sources of the total £36m capital financing requirement for 2017/18.

The chart indicates that 43% (£15.4m) of total resources was provided through the Scottish Government General grant. 31% (£11.28m) of the capital financing requirement was provided by the Council's capital prudential borrowing. Specific Capital grant accounted for 9% (£3.1m) and was provided from the Scottish Government to fulfil national policy priorities in Flood Protections schemes in Selkirk and Hawick and expansion within Early Learning & Childcare. The remaining 17% of total funding was made up of External Grants & Contributions, Developer Contributions, Plant & Vehicle Fund, Capital Financed from Current Revenue (CFCR) and Capital Receipts.

Actual Capital Financing 2017/18



Treasury and Debt Management

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

Cash Management

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

Debt Management

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

External Debt

The Council's outstanding external debt as at 31 March 2018 was £203m. Additional long term borrowing was undertaken during the year amounting to £10m. Short term borrowing for cash flow purposes was also undertaken with £5m outstanding at the year end. The average rate of interest paid on outstanding external debt was 6.15%.

Management Commentary

Reserves

The Council maintains two types of reserves – usable and unusable – and the movement in these reserves are set out in the Movement in Reserves Statement (page 46).

Unusable Reserves – result from accounting adjustments and cannot be spent

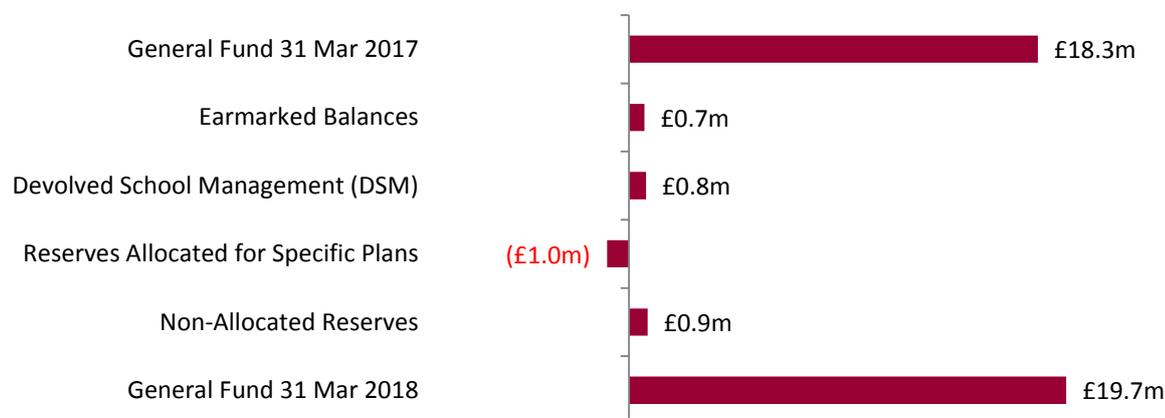
Usable Reserves – result from the Council’s activities and can be spent in the future

Note 31, page 100 provides additional information on the status of the usable and unusable reserves held by the Council.

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

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

As at 31 March 2018 the total General Fund Reserve Balance is £19.7m (£18.3m at 31 March 2017) an increase of £1.4m during the year. The increase, as can be seen from the chart below, can be attributed to the increase in Earmarked Balances including DSM, the value of which will vary from year to year, and movements in the Allocated and Non-Allocated reserves.



The following key changes within the Allocated and Non-Allocated Reserves were made during 2017/18:

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)

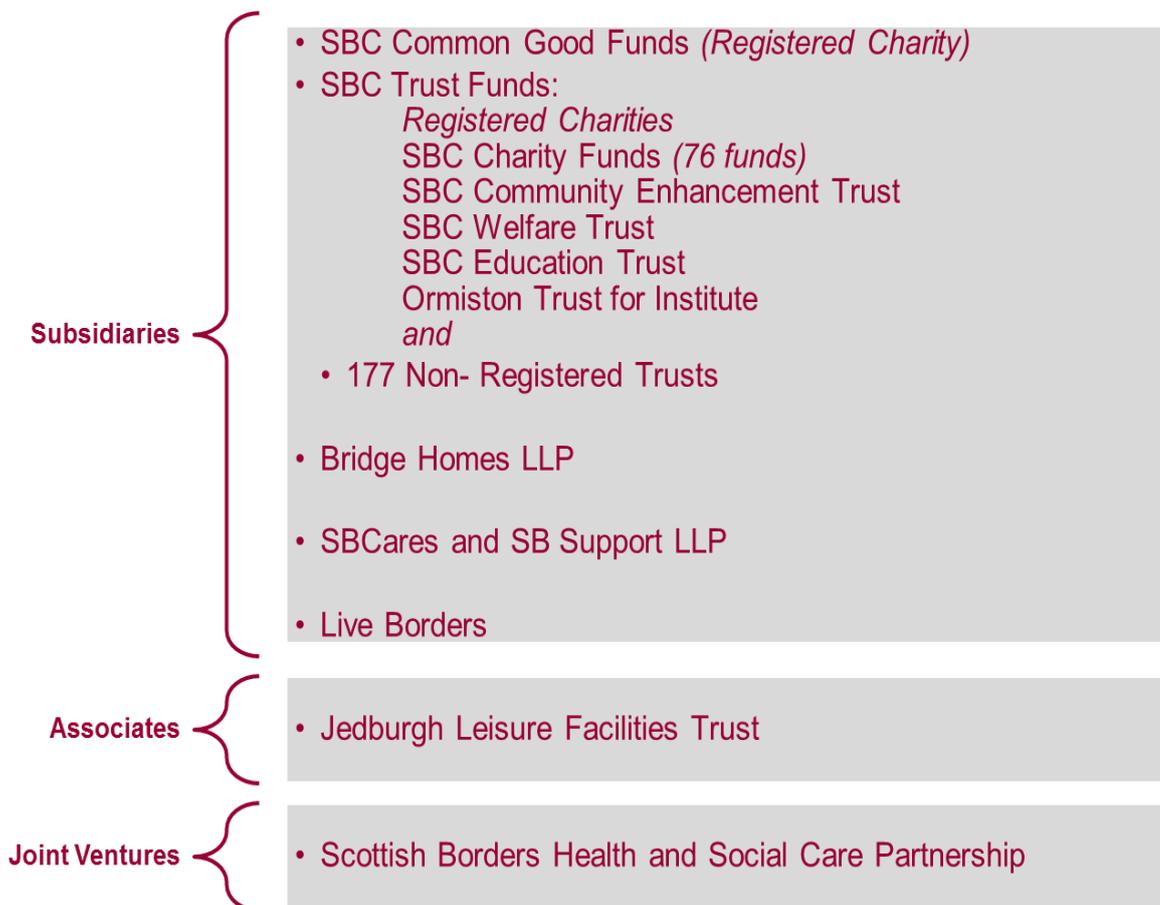
Non-Allocated Reserves

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

Management Commentary

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2018 with a comparator year ending 31 March 2017. The Group Accounts for 2017/18 can be found from page 107. The Group comprises of the following:



Management Commentary

How are we doing?

Our Priorities

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



https://www.scotborders.gov.uk/info/20063/performance/250/our_performance_as_a_council

Performance against our corporate priorities

The Council reports and presents its performance information relating to each corporate priority on a monthly basis to the Corporate Management Team, and on a quarterly basis to the Executive Committee of the Council. Below is a summary of the key performance information for 2017/18 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.



SCOTTISH BORDERS COUNCIL CORPORATE PRIORITIES SUMMARY OF PERFORMANCE 2017/18 HOW ARE WE DOING?

In 2013, we published our Corporate Plan, with eight priorities to work towards over a five year period. This summary provides an overview of performance during 2017/18, under each of the 8 Corporate Priorities. We continue to make significant progress across a number of key areas such as the economy and education, but recognise that there are ongoing challenges to face in the coming years. Reviewing performance information regularly is a vital part of ensuring we stay focused on what is important; **ensuring the best quality of life for everyone in the Scottish Borders, prosperity for our businesses and good health and resilience for all our communities.**

KEY

A mixture of performance information is provided under each priority:

The top half of each page contains high level performance indicators that show, for example, the general health of the economy. For comparison we have included last years figure and any Scottish data (where applicable). While the Council may have influence over these indicators, they are largely contextual in nature, and the information is displayed within a grey box.

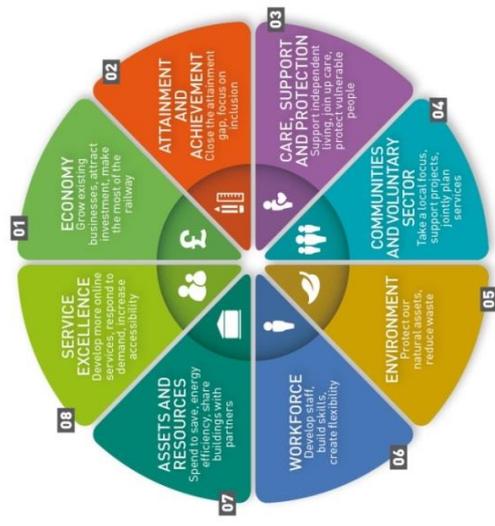
100,491 phone interactions were logged by our **Contact Centres** in 2017/18
(down from 103,761 in 16/17)

The bottom half of each page contains performance indicators that we have more influence over, for example, how quickly we process planning applications. Information for each indicator is displayed within a white box above a coloured section. This coloured section (where applicable) will be either Green, Amber or Red and shows where performance has improved or reduced against the **previous year.**

- green - improved performance
- amber - a minor change in performance
- red - area for improvement
- grey - for information

EMPLOYMENT RATE	74.5%
of people aged between 16-64 are now in employment	
Scotland	74.3%
SB last year	74.1%

OUR CORPORATE PRIORITIES



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 12 June 2018.



New Enterprise Agency for South of Scotland

A key outcome from the Council's Economic Development activity in 2017/18 was the successful lobbying of Scottish Government to create a new South of Scotland Enterprise Agency. This was the realisation of a long-term approach, driven by the Council Alliance, to highlight the economic challenges faced by businesses and communities in the South of Scotland.

The proposal to create a new Enterprise Agency, modelled on Highlands and Islands

Enterprise, offers a tremendous opportunity to transform the area's economy, building on its significant strengths and traditions. It is a once in a generation opportunity to secure a more prosperous future for the region.

A South of Scotland Economic Partnership has been set up as an interim arrangement to deliver a fresh approach to economic growth in the area and pave the way for the new Agency. The Scottish Government confirmed a £10million funding boost for the region in January

2018, to be delivered through the Economic Partnership.
<https://consult.gov.scot/economic-policy-unit/new-enterprise-agency-for-the-south-of-scotland/>

01 ENCOURAGE SUSTAINABLE ECONOMIC GROWTH HOW ARE WE DOING?

April 2017 – March 2018:

EMPLOYMENT RATE* 74.5% of people aged between 16-64 are now in employment	CLAIMANT COUNT (16-64YR OLDS) 1.63% of working age people are now out of work and claiming benefits	CLAIMANT COUNT (18-24YR OLDS) 3.43% of young people are now out of work and claiming benefits	PLANNING APPLICATIONS 1,307 received during 2017/18	Scotland SB last year	74.3% 74.1% 2.5% 1.8% 3.5% 3.7%	1,324
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railway • connectivity • investment • skills • housing • investment • connectivity • railway • investment • skills

Our performance during 2017/18

BUSINESS GATEWAY 224 new businesses were created with our help (down from 231 in 16/17)	BUSINESS LOANS AND GRANTS £129.9k was approved in loans over 8 successful applications to the Scottish Borders Business Loan Fund (up from £71.2k in 16/17)	AFFORDABLE HOMES 145 affordable homes were delivered (above target of 128)	AVERAGE TIME TO DETERMINE PLANNING APPLICATIONS* 11.0 weeks major applications received in Q3 17/18 (Q3 16/17 0.0 weeks)
1,324 businesses were supported in 2017/18 (up from 1,085 in 16/17)	£100.9k was approved in grants over 33 successful applications to the Scottish Borders Business Fund (down from £131.5k in 16/17)	INVOICES PAID Invoices paid within 30 days on average were 78% during 2017/18 (down from 91% in 16/17)	7.8 weeks weeks for non-householders (Q3 16/17 6.9 weeks)
			6.7 weeks weeks for householders (Q3 16/17 7.4 weeks)



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
 Correct at time of publication: 12 June 2018.

*Performance indicators with a quarter lag in data. # Unadjusted data, awaiting information from Scottish Government.



02

IMPROVE ATTAINMENT AND ACHIEVEMENT LEVELS FOR ALL OUR CHILDREN AND YOUNG PEOPLE, WITH A FOCUS ON INCLUSION

HOW ARE WE DOING?

2017 Annual Participation Measure

4,778 young people age 16–19 year in the **Scottish Borders** (included in this measure).

92.5%

are participating in **Education, Employment or Training**

- **73.9%** in Education (74.6% in 2016)
- **17.5%** in Employment (15.0% in 2016)
- **1.2%** in Training & Personal Development (1.8% in 2016)

Scotland

91.1%

3%

not participating in **Education, Employment or Training**

- **1.3%** Unemployed Seeking
- **1.7%** Unemployed Not Seeking

Scotland

3.7%

4.5%

Unconfirmed Status

Scotland

5.3%

Participation Measure

Skills Development Scotland (SDS) has worked with the Scottish Government to develop the Participation Measure.

The purpose of the Participation Measure is to identify what young people 16–19 are doing, to inform policy, planning and service delivery and determine the impact of the Scottish Government's Opportunities for All commitment.

The Participation Measure covers all those aged 16 to 19, not just the school leavers.

inclusion • attainment • achievement • leadership • inclusion • leadership • attainment • achievement • leadership

Our performance during 2017/18

In October 2017, SBC launched an online **Parents Evening Booking System** (PEBS), saving time for both staff and parents, and enabling parents to log in and book their own appointments at a time to suit them without relying on the student.



Feedback from staff and parents has been positive and the 84% uptake is encouraging, with some schools showing 100%. Figures for individual schools show where usage is lower and the reasons are currently being investigated to ensure that any barriers, such

as lack of digital skills or access to devices, is addressed.

SBC is also investigating the further capabilities of **ParentPay** and how it could be used to manage payments for school trips, consent forms etc.

ATTENDANCE (TO DATE, DURING 2017/18 SCHOOL YEAR)

95.4% pupils attended their primary school

Scottish average for 16/17 = 94.9%

PRIMARY SCHOOL PUPILS EXCLUDED

49 primary school exclusions this year

46

SB 2016/17

SECONDARY SCHOOL PUPILS EXCLUDED

166 secondary school exclusions this year

215

SB 2016/17



91.1% pupils attended their secondary school

Scottish average for 16/17 = 91.2%



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 12 June 2018. *Performance indicators with a quarter lag in data.



03 PROVIDE HIGH QUALITY SUPPORT, CARE AND PROTECTION TO CHILDREN, YOUNG PEOPLE, ADULTS, FAMILIES, AND OLDER PEOPLE HOW ARE WE DOING?

April 2017 – March 2018:

SELF-DIRECTED SUPPORT APPROACH
77.6% of adults are using the **Self-Directed Support approach** (at end Mar-2018)
 SB last year 59%

DOMESTIC ABUSE
1,163# reported incidents of **domestic abuse**
 SB last year 968

CRIMES AND OFFENCES
3,448# group 1-5 crimes and offences were recorded
 SB last year 3,047

WELFARE BENEFITS SERVICE
1,752 people contacted our **Welfare Benefits Service** receiving **over £8.5m** in additional benefits
 SB last year 2,949 (£8.4m)

Borders Community Capacity Building – Our Aim and Vision
 Increasing access to physical and mental wellbeing services in communities has been shown to have a preventative role in reducing demand upon Health and Social Care services. The aim of the Community Capacity Building team is to actively foster and encourage the development of resilience within communities to allow them to become stronger and more self-reliant through offering the right support at the right time. External evaluation of Community Capacity Building work so far suggests a social return on investment in the region of £10 for every £1 invested.
 The Community Capacity Building team (CCB) has been congratulated for winning silver at the finals of the iESE (Improvement and Efficiency Social Enterprise) Public Sector Transformation Awards 2018.

support • independence • joined-up care • health • support • independence • joined-up care • health • support • independence • joined-up care • health

Our performance during 2017/18

CARE AT HOME
78% of adults (aged 65yrs+) received care at home compared to a care home/residential setting (at end 2017/18)
 (above our target of 70%)

LOOKED AFTER CHILDREN
224 looked after and accommodated children (at end 2017/18)
 (down from 251 at end of 2016/17)
84% of looked after children (across all ages) were living within a community family based placement (at end 2017/18)
 (down from 87% at end of 2016/17)

ADULT PROTECTION DURING 2017/18
277 concerns were raised
 (up from 206 in 16/17)
131 investigations were carried out
 (up from 118 in 16/17)

CHILD PROTECTION
559 inter-agency discussions (Initial Referrals Discussions) concerning the safety of a child held
 (down from 590 in 16/17)
44 children on the Child Protection Register (at end 2017/18)
 (down from 54 in 2016/17)

NEW SERVICE USERS
93% of new service users received a service within 6 weeks of assessment (at end 2017/18)
 (down from 100% end 2016/17)



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
 Correct at time of publication: 12 June 2018. *Performance indicators with a quarter lag in data. # Cumulative Figure in year.



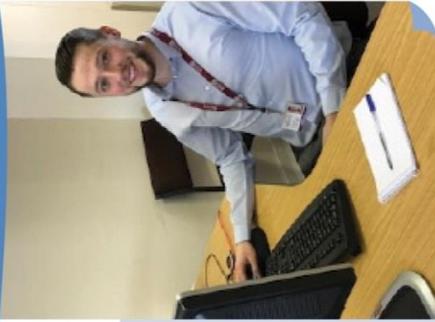
LOCALITIES BID FUND
your money your choice

04 BUILD THE CAPACITY AND RESILIENCE OF OUR COMMUNITIES AND VOLUNTARY SECTOR HOW ARE WE DOING?

April 2017 – March 2018:

Area	Localities Bid Fund Total	Projects	Votes Cast	Winners	Outcomes
BERWICKSHIRE	£45,000	10	5,306	Winning results - winners: <ul style="list-style-type: none"> Friends of Duns Primary School Duns Amateur Swimming Club Connect Berwickshire Youth Project Duns & District Men's Shed 	The following funding has been awarded in 17/18 £34.1k Quality of Life Projects £27.0k Neighbourhood Small Schemes £18.9k Community Grants Scheme
CHERVIOT	£35,000	3	1,059	Winning results - winners: <ul style="list-style-type: none"> Borders Search & Rescue Unit 	The following funding has been awarded in 17/18 £21.0k Quality of Life Projects £31.2k Neighbourhood Small Schemes £17.6k Community Grants Scheme
EILDON	£60,000	17	11,619	Winning results - winners: <ul style="list-style-type: none"> Stow Parent Council Rowland's Selkirk (Food for Thought) Stow Community Learning Hub Earlston High School Parent Council Rowlands (Swap Shop) 	The following funding has been awarded in 17/18 £16.3k Quality of Life Projects £42.0k Neighbourhood Small Schemes £34.6k Community Grants Scheme
TEVIOT & LIDDESDALE	£38,000	14	5,845	Winning results - winners: <ul style="list-style-type: none"> Newcastleton Polysport / Copshaw Cutters Artbeat Studios Escape Youth Services Hawick Community Pump Track Hawick Men's Shed 	The following funding has been awarded in 17/18 £18.2k Quality of Life Projects £32.9k Neighbourhood Small Schemes £10.7k Community Grants Scheme
TWEEDDALE	£30,000	17	12,255	Winning results - winners: <ul style="list-style-type: none"> Clovenfords Digital Ninja Community Project Julie's Kitchen Garden - Clovenfords Tweed Valley Mountain Rescue Team 	The following funding has been awarded in 17/18 £21.0k Quality of Life Projects £18.7k Neighbourhood Small Schemes £22.5k Community Grants Scheme

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 12 June 2018. *Performance indicators with a quarter lag in data.



06

**DEVELOP OUR WORKFORCE
HOW ARE WE DOING?**

April 2017 – March 2018:

Scottish Borders Council Modern Apprenticeship Programme

Alistair Colville graduated from the Modern Apprenticeship programme in 2017. His apprenticeship included compiling reports on Council performance and achieving the SVQ Level 3 Business and Administration qualification.

He said, "The role within the Performance team stood out to me as I could see that it would involve working with departments across the Council giving me the opportunity to have an insight into nearly all of the service areas that SBC cover."

Manager, Sarah Watters, commented, "Employing a Modern Apprentice was a great step for my team. Having a fresh perspective was very beneficial and seeing Alistair graduate from the programme and secure a full time position within SBC highlighted that this approach can be very worthwhile."

Tracey Beattie, Service Delivery Manager, welcomed Alistair to his new role in the SBC Customer Advice and Support Service. "Alistair's knowledge of the Council services and staff have benefited my team and he is an asset to the service as a whole."

Alistair concluded, "I feel like the MA programme allows young people an opportunity to get their foot in the door with SBC which can lead to opportunities within SBC. This has been the case with me as it allowed me to move from the Performance team into Customer Advice and Support once I had completed my MA with a qualification that I had obtained along with many other forms of knowledge revolving around Scottish Borders Council."

- benefits
- communication
- staff development
- flexibility
- benefits
- communication
- staff development

Our performance during 2017/18

SBC ABSENCE RATE *

Reporting on absence from Business World is being further developed and tested, and regular reporting will recommence shortly. This remains a key area of focus for SBC at this time.

WORK OPPORTUNITIES

38 work opportunities are being supported by SBC through our "Work Opportunities Policy" as of March 2018

[down from 50 in March 17]

APPRENTICESHIPS

30 apprentices are employed with SBC as of March 2018

[down from 36 in March 17]

APPRENTICESHIPS

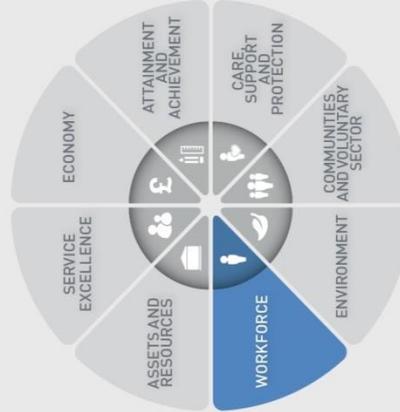
53.33% male (Mar-18)

46.67% female (Mar-18) across various departments such as Human Resources, Engineering, Finance



Of 94 Modern Apprenticeship opportunities provided by Scottish Borders Council (SBC) since 2014, many have achieved positive outcomes and gone on to secure employment with SBC.

A recent analysis showed that 35 had secured jobs with SBC whilst 12 had secured roles with other employers. 5 had progressed to University or College places. 36 remained within their apprenticeship period.



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk Correct at time of publication: 12 June 2018. *Performance indicators with a quarter lag in data.



07 DEVELOP OUR ASSETS AND RESOURCES HOW ARE WE DOING?

April 2017 – March 2018:

CAPITAL RECEIPTS
£380.3k#
was received from selling our fixed assets such as buildings in 2017/18

OCCUPANCY RATES
88.8%
of industrial and commercial properties owned by the council were occupied as of March 2018

SBC last year £1,437.0k

SBC last year 88.8%

Cemex UK, who operate a local Quarry and Asphalt Plant at Cowieslinn near Peebles, provide SB Contracts with aggregates, concrete and other roads materials. As part of their 'Lend a Hand' scheme ten of their staff from across the UK recently visited **Stable Life** to give the stables a much needed make-over.

Armed with paint brushes and paint they spent an enjoyable day painting the walls of all the stables and other buildings in the yard. Mags Powell (Business Development Manager) said "They did a fantastic job whitewashing

the stables and big shed which has really brightened the place up and saved us what would have been a huge task"

Stable Life (a charity based in Ashkirk) provides a safe, nurturing and learning experience using the horse and its environment to help young people reach their full potential and become healthier and happier with aspirations and dreams.

This is a great example of how the contracts that SBC awards can have a really positive impact within communities.

buildings

energy efficiency

capital investment

buildings

energy efficiency

capital investment

buildings

Our performance during 2017/18

COUNCIL PROPERTIES
21 properties are no longer required

7 properties are advertised for sale
7 properties are currently under offer

COUNCIL TAX
96.81% of Council Tax due was collected in 2017/18

above target

TOP 21 MAJOR PROJECTS
Of the **Top 21 major Projects** ongoing across the council:

18 are on target
3 are slightly behind target
0 are not on target

ENERGY CONSUMPTION*
we used **8,395,393** kilowatt hours of electricity at a cost of **£919.7k**

(down from 8,914,731 in 16/17)
(down from £984.4k in 16/17)

*The energy consumption figures are based on 26 sites across the council which account for approximately 50% of the energy used across the council, and is therefore representative of the energy use across the council as a whole.

ENERGY CONSUMPTION*
we used **12,671,962** kilowatt hours of gas at a cost of **£299.8k**

(up from 11,989,595 in 16/17)
(up from £266.5k in 16/17)



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 12 June 2018. # Performance indicators with a quarter lag in data. # Cumulative Figure in year.



Social Media's role in Community Resilience

The Council's social media channels are a vital communication method, particularly during severe weather, and are used hand in hand with the website to ensure that residents can access the latest information.

During the 'Beast from the East' more than half of all visitors to the severe weather/roads update webpage came directly to the page from links in social media posts. The same was true of the school closure/school transport webpage.

Facebook posts during the severe weather reached over 1.35m people, with over 7,600 shares and 9,500 likes, and the number of followers increased by 1,745 in just eight days.

A single Tweet generated over 9,700 clicks through to the website.

08

ENSURE EXCELLENT, ADAPTABLE, COLLABORATIVE AND ACCESSIBLE PUBLIC SERVICES HOW ARE WE DOING?

April 2017 – March 2018:

CUSTOMER INTERACTIONS 169,326 interactions with the public were handled by our Customer Service staff via email, face to face contact, phonecalls and mail in 2017/18	FREEDOM OF INFORMATION REQUESTS (FOI) 1,279 requests for information under the Freedom of Information Act were received in 2017/18	COMPLAINTS 691 customer complaints were closed by SBC in 2017/18	SBC last year 172,078 SBC last year 1,246 SBC last year 627
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- ICT
- customer focus
- online services
- partnership
- ICT
- customer focus
- online services
- partnership

Our performance during 2017/18

CUSTOMER INTERACTIONS 62,432 face to face interactions were logged by our Contact Centres during 2017/18 (down from 62,470 in 16/17)	FREEDOM OF INFORMATION 93.3% of FOI requests were completed on time in 2017/18 (up from 92.5% in 16/17)	COMPLAINTS Our average response times for complaints for 2017/18 were as follows: Stage 1 complaints 4.0 days (in line with 4.0 days in 16/17) Stage 2 complaints 17.7 days (up from 16.7 days in 16/17) Escalated complaints 18.0 days (up from 16.4 days in 16/17)
100,491 phone interactions were logged by our Contact Centres in 2017/18 (down from 103,761 in 16/17)	SOCIAL MEDIA The number of engagements during 2017/18: 368,236 120,805	Service Excellence In 2017/18 we closed: 86.4% of complaints at stage 1 within 5 working days (up from 85.8% in 16/17) 67.4% of complaints at stage 2 within 20 working days (down from 76.6% in 16/17) 53.8% of escalated complaints within 20 working days (down from 67.9% in 16/17)

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 12 June 2018. *Performance indicators with a quarter lag in data.



Management Commentary

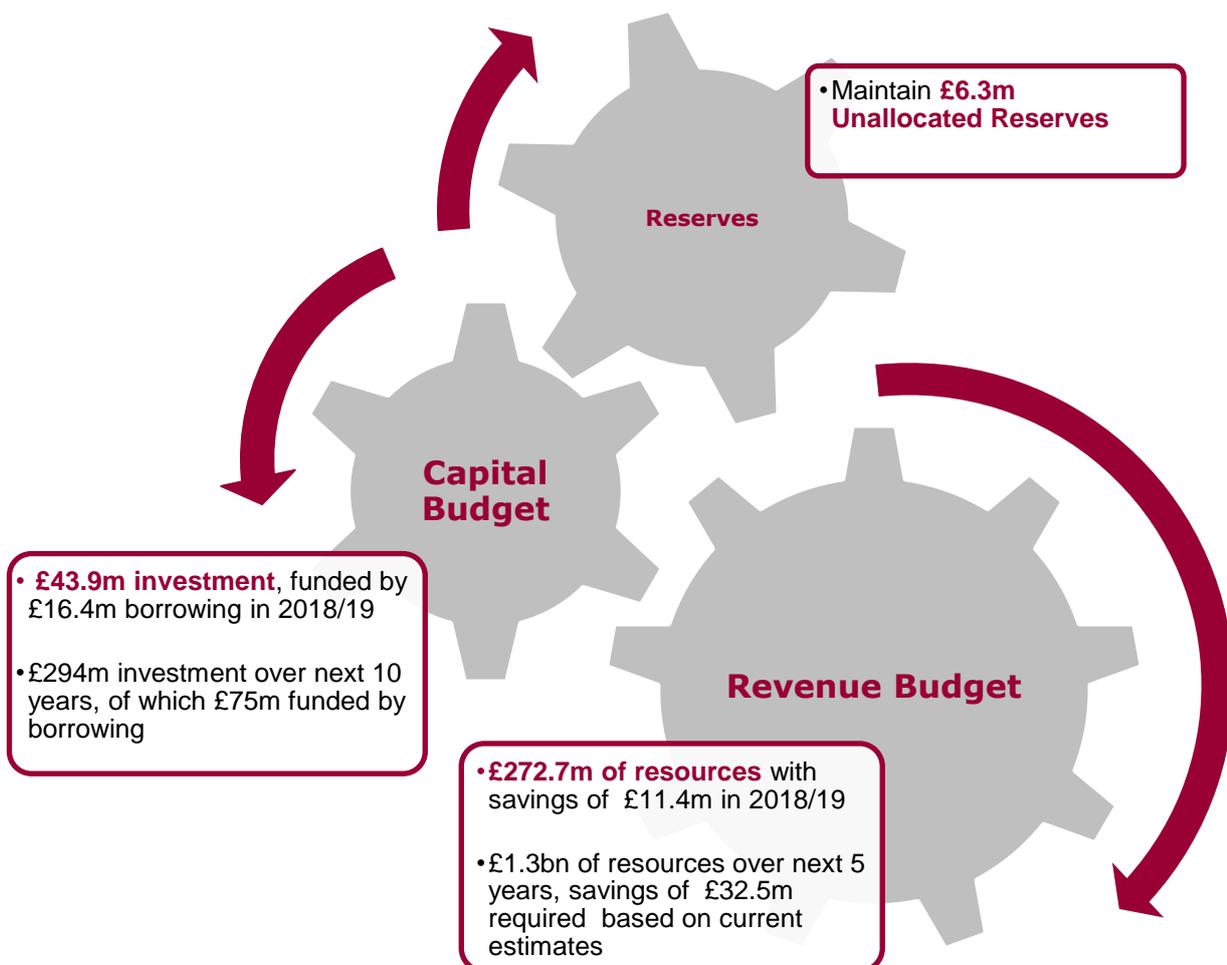
Our Plans for the Future

The Council approved a new Corporate Plan in February 2018 which provides strategic direction for the five year period 2018 to 2023. This new plan builds on the priorities in the previous Corporate Plan, as well as SBC's Administration's vision within "Connected Borders" and current opportunities and challenges now facing by the Scottish Borders. The Plan focuses on what SBC will do, under four themes:

- Our services for you
- Independent achieving people
- A thriving economy with opportunities for everyone
- Empowered, vibrant communities

To ensure that SBC is able to respond effectively to ongoing budget challenges, a change in approach is proposed within the new Corporate Plan. Not only does it state the work that SBC is committing to for the next 5 year but it suggests where individuals, families, businesses, partners and communities can play their part to improve outcomes for the Scottish Borders. A **#your part** campaign to promote this approach is in place from 2018 to sit alongside the Corporate plan and includes the involvement of Community Planning partners.

Future Financial Plans - 2018/19

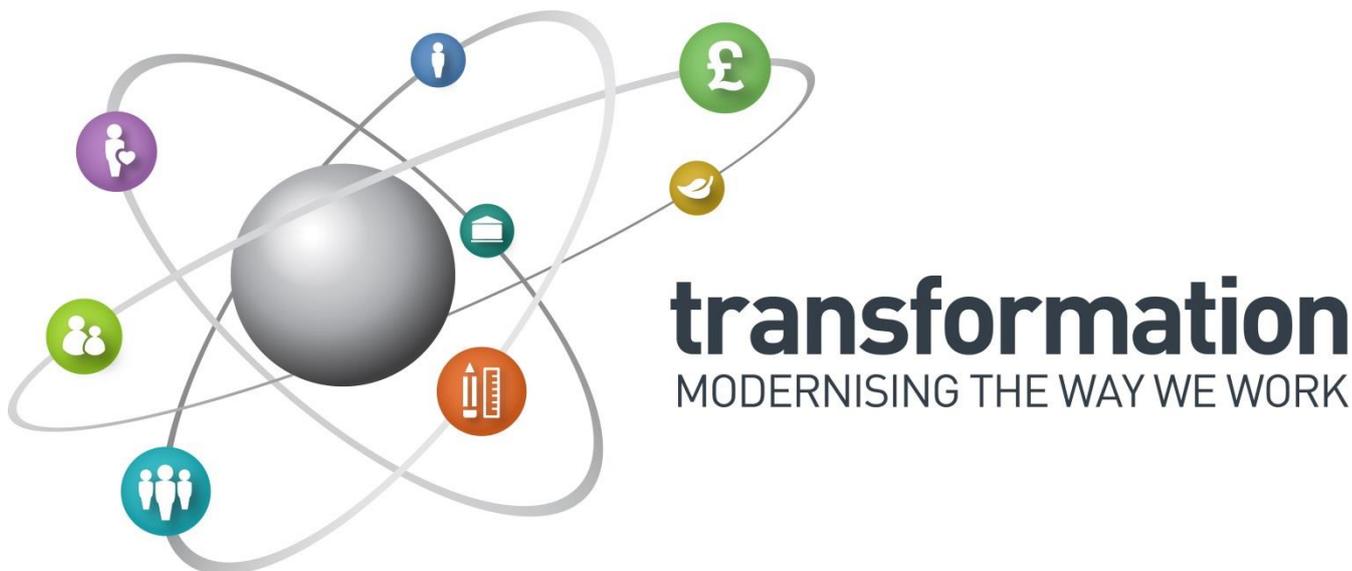


Management Commentary

The Revenue and Capital Financial Plans from 2018/19 onwards can be found on the Councils webpages at www.scotborders.gov.uk

Corporate Transformation Programme

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



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

Conclusion

The operating environment for the Council continues to be very challenging with financial and economic influences such as increasing demands on services, reducing Scottish Government funding, low interest rates and cost pressures from pay and price inflation all affecting the Council's finances. The Council, despite these challenges, remains financially sound and well placed to serve the people of the Scottish Borders in the future. As already noted 2017/18 has been a year of significant change within the Council with huge challenges posed by implementation of ERP. The work of staff across the Council in implementing the new system is gratefully acknowledged. The Council's Finance team were pleased to be awarded the 'CIPFA Scottish Public Sector Finance team of the year 2018' at the annual Scottish CIPFA conference.

Shona Haslam
Leader
Scottish Borders Council
25 September 2018

Tracey Logan
Chief Executive

David Robertson CPFA
Chief Financial Officer

Statement of Responsibilities

The Council's responsibilities

The Council is required to:

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

I confirm that these Annual Accounts were approved for signature by the Council at its meeting on 25th September 2018.

The Chief Financial Officer's responsibilities

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

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

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

The Chief Financial Officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the local authority (and its group) for the year ended 31 March 2018.

Shona Haslam
Leader
Scottish Borders Council
25 September 2018

David Robertson CPFA
Chief Financial Officer

Independent Auditor's Report

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Scottish Borders Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the Council Tax Income Account, the Non-Domestic Rate Income Account, Trust Funds, Common Good Funds, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor`s Report

Responsibilities of the Chief Financial Officer and Audit & Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Chief Financial Officer is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate. The Audit & Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Independent Auditor`s Report

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2018

Annual Governance Statement 2017/18

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the new CIPFA/SOLACE Framework (2016) for the year ended 31 March 2018, sets out the Council's governance arrangements and system of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (Spring 2016) (the 'Framework') is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The 'Framework' defines the seven core principles of good governance, namely:

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

Revisions were required to the Council's Local Code of Corporate Governance during 2016/17 to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the 'Framework' and the supporting guidance notes for Scottish authorities (November 2016). This was approved by Council on 24 August 2017 on recommendation by Audit and Scrutiny Committee in June 2017 and a copy of the Local Code of Corporate Governance was published on the Council's website.

Annual Governance Statement 2017/18

The Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

The Community Planning Partnership (of which the Council is a partner) has a Community Plan approved November 2017 (the Local Outcomes Improvement Plan (LOIP)) underpinned by 5 Locality Plans which are being developed through Area Partnerships for approval in 2018. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the new Corporate Plan 2018-2023 approved February 2018 which suggests where individuals, families, businesses, partners and communities can "play their part" to improve outcomes for the Scottish Borders #YourPart.

Asset management planning (which is under development) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. The Council has put arrangements in place to comply with key elements of the Community Empowerment Act.

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

Annual Governance Statement 2017/18

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

Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report.

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

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Corporate Plan.

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

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

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

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

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

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

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

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

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

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

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

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

Annual Governance Statement 2017/18

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

The Chief Officer Audit & Risk (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on work carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards. The audit opinion within the Internal Audit Annual Assurance Report 2017/18 states that the systems of internal control and governance are operating satisfactorily, reasonable assurance can be provided on their adequacy, and further improvements have been agreed by Management. Resources have been deployed to address issues with new Business World ERP system, including delays in delivery of some functionality, and to establish manual controls, where appropriate, in the interim. The Project Board monitors realisation of expected business benefits.

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

Review of Framework

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

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

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

The conclusion from the review activity outlined above is that in 2017/18 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective, and are consistent with the principles and recommendations of the 'Framework'.

The Chief Financial Officer has highlighted one exception in his assurance statement being the ongoing rectification plan to address deficiencies in the Business World ERP system and the delayed delivery of outstanding functionality, specified in Solution Design Documents, and intended to deliver significant business benefits which remain outstanding, have impacted upon the full effectiveness of the control environment and heightened risk of a control failure during the year. To mitigate this risk, as far as is possible, staff resources have consequently been deployed to sorting defects, performing manual reconciliation processes to address areas where system functionality has not been operating effectively for much of the year e.g. bank reconciliation, and resolving system generated errors. This has required significant manual effort, a series of workarounds, and the procurement of additional consulting time.

Improvement Areas of Governance

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

- (a) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) continue to ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's Corporate Plan and priorities thus managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available; and (ii) continue to monitor the contract performance outcomes of strategic external service providers.
- (b) Review and refresh of the Performance Management Framework to ensure it aligns with the new Corporate Plan and informs improvement activity and decision making. This will include the full

Annual Governance Statement 2017/18

application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to financial, people and business planning.

- (c) The ongoing implementation of the rectification plan to address deficiencies in the Business World ERP system and the delayed delivery of outstanding functionality, specified in Solution Design Documents, and subsequent review of Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations and of the HR procedures and guidelines associated with the implementation of the new Business World ERP System.
- (d) Prioritisation of Corporate Transformation Programme and other Projects to ensure adequate resources are appropriately allocated and that there is confidence in the delivery of improvements and savings to enable delivery of efficient and effective services to customers in a sustainable way.
- (e) Implementation of further actions to ensure comprehensive data and information management across the Council and within each Service in all relevant aspects of service delivery through appropriate awareness of and adherence to procedures, practices and guidelines to ensure full compliance with legislation and regulations, both current and planned e.g. GDPR.
- (f) Review of the Complaints Handling Procedure to ensure consistency of approach across the Council for dealing with complaints including raising staff awareness of customer care.
- (g) Implementation of the Corporate Landlord Model (one of the Corporate Transformation Programmes) that underpins the development and implementation of a standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future.

These actions to enhance the governance arrangements in 2018/19 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review. Internal Audit work planned in 2018/19 is designed to test improvements and compliance.

Certification

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

Shona Haslam
Leader
Scottish Borders Council
25 September 2018

Tracey Logan
Chief Executive

Remuneration Report

The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. The following information in this Remuneration Report has been audited by Audit Scotland:-

- Senior Councillor Remuneration Page 38
- Senior Officer Remuneration Page 40
- Pay Bandings Information Page 37
- Pension Benefits Information for Senior Councillors Page 43
- Pension Benefits Information for Senior Officers Page 44

The other sections of the Remuneration Report have been reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

Remuneration Policy

Remuneration of Senior Councillors

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

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2017/18 the salary for the Leader of Scottish Borders Council (D Parker to 4th May 2017, S Haslam from 18th May 2017) is £33,857. The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its Senior Councillors shall not exceed £296,238. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The policy for Scottish Borders Council is to have a maximum of 14 Senior Councillors plus a Council Leader and Convener.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader and Convener, is £286,319. Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become members of the pension scheme.

The Remuneration for Members scheme which encompasses the salaries of all elected members including the Leader and Senior Councillors was agreed at a meeting of the full Council on 24 May 2012 and then amended at the meeting of Council on 30 August 2012 to take account of changes to the Scheme of Administration. At the Scottish Borders Council meeting of 25 May 2017 a new Scheme of Payment for Senior Councillors was agreed with sums payable from 18 May 2017.

Remuneration Report

Remuneration of Senior Employees

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

A senior employee is any employee who:

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

Remuneration Disclosures

General Disclosure by Pay Band

The Local Authority Accounts (Scotland) Regulations 2014 also requires information to be provided on the number of persons whose remuneration was £50,000 or more. This information is to be disclosed in bands of £5,000. The numbers of employees at Scottish Borders Council whose remuneration was £50,000 or more, excluding employer's pension and national insurance contributions, is shown in the following table:

Remuneration Bands	Chief Officer		Teachers		Other Staff		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£50,000 - £54,999	2	-	57	42	21	28	80	70
£55,000 - £59,999	-	2	14	25	1	1	15	28
£60,000 - £64,999	6	4	3	1	1	-	10	5
£65,000 - £69,999	1	2	2	3	-	-	3	5
£70,000 - £74,999	3	4	2	2	1	-	6	6
£75,000 - £79,999	-	1	2	1	-	2	2	4
£80,000 - £84,999	4	3	-	-	-	-	4	3
£85,000 - £89,999	2	3	-	-	-	-	2	3
£90,000 - £94,999	-	-	-	-	-	-	-	-
£95,000 - £99,999	-	-	-	-	-	-	-	-
£100,000 - £104,999	-	-	-	-	-	-	-	-
£105,000 - £109,999	2	-	-	-	-	-	2	-
£110,000 - £114,999	-	-	-	-	-	-	-	-
£115,000 - £119,999	-	-	-	-	-	-	-	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	-	-	-	-	-	-	-	-
£130,000 - £134,999	1	-	-	-	-	-	1	-
£135,000 - £139,999	-	1	-	-	-	-	-	1
Total	21	20	80	74	24	31	125	125

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2016/17 £	Councillor Name	Responsibility	Salaries, fees and allowances £	Taxable Expenses £	Total Remuneration 2017/18 £
33,789	D Parker	Leader of the Council to 4 May 2017; Convener from 18 May 2017	25,295 (FYE 33,789)	-	25,295
-	S Haslam	Leader of the Council from 18 May 2017	(FYE 25,392) 29,488	-	29,488
25,341	G Garvie	Convener to 4 May 2017	2,384 (FYE 25,341)	-	2,384
59,130		Leader and Convener Remuneration	57,167	-	57,167
25,341	J Mitchell	Depute Leader of the Council to 4 May 2017	2,384 (FYE 25,341)	-	2,384
22,893	M Cook	Executive Member for HR and Corporate Improvement to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	V Davidson	Executive Member for Culture, Sport, Youth & Communities to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	F Renton	Executive Member for Social Work & Housing to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	D Moffat	Executive Member for Community Safety to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	J Brown	Executive Member for Community Planning/Vice Convener to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	A Aitchison	Executive Member for Education to 4 May 2017; Executive Member for Neighbourhoods & Locality Services from 18 May 2017	21,524 (FYE 22,893) (FYE 22,240)	-	21,524
22,893	S Bell	Executive Member for Economic Development to 4 May 2017; Chair of Audit & Scrutiny from 18 May 2017	18,223 (FYE 22,893) (FYE 18,450)	-	18,223
22,893	G Edgar	Executive Member for Roads and Infrastructure to 4 May 2017 and from 18 May 2017 (also Locality Committee Chair)	21,524 (FYE 22,893) (FYE 22,240)	-	21,524
22,893	D Paterson	Executive Member for Environmental Services to 4 May 2017	2,154 (FYE 22,893)	-	2,154
22,893	R Smith	Executive Member for Planning and Environment to 4 May 2017	2,154 (FYE 22,893)	-	2,154
20,550	W Archibald	Convener of the Licensing Board to 4 May 2017	1,933 (FYE 20,550)	-	1,933
20,550	M Ballantyne	Leader of Opposition to 4 May 2017	1,933 (FYE 20,550)	-	1,933
-	T Weatherston	Executive Member for Adult Social Care/Depute Convener from 18 May 2017	19,370 (FYE 22,240)	-	19,370
-	C Hamilton	Executive Member for Children & Young People from 18 May 2017	19,370 (FYE 22,240)	-	19,370
-	G Turnbull	Executive Member for Finance from 18 May 2017	19,370 (FYE 22,240)	-	19,370
-	M Rowley	Executive Member for Business & Economic Development from 18 May 2017	19,370 (FYE 22,240)	225	19,595
-	S Mountford	Executive Member for Transformation & HR and Locality Committee Chair from 18 May 2017	19,370 (FYE 22,240)	35	19,405
-	E Jardine	Executive Member for Culture & Sport from 18 May 2017	19,370 (FYE 22,240)	-	19,370
-	T Miers	Executive Member for Planning & Environment from 18 May 2017	19,370 (FYE 22,240)	152	19,522
-	S Marshall	Locality Committee Chair from 18 May 2017	16,069 (FYE 18,450)	-	16,069
-	J Fullarton	Locality Committee Chair from 18 May 2017	16,069 (FYE 18,450)	-	16,069
-	R Tatler	Locality Committee Chair from 18 May 2017	16,069 (FYE 18,450)	141	16,210
-	W McAtter	Police, Fire & Rescue and Safer Communities Board Chair from 18 May 2017	19,370 (FYE 22,240)	-	19,370
295,371		Total Other Senior Councillor Remuneration	285,766	553	286,319
354,501		Total Senior Councillor Remuneration	342,933	553	343,486

Remuneration Report

- (1) The total remuneration figures relate to the salary, fees and allowance for 2017-18 are as included in the Comprehensive Income and Expenditure Statement. They are only in respect of monies paid to Councillors whilst actually holding a Senior Councillor position during that year.
- (2) Councillor Bhatia held the position of Depute Leader (Health Services) which is not a remunerated post.

Total Remuneration paid to Councillors

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

2016/17 £'000		2017/18 £'000
675	Salaries	655
98	Expenses	93
773	Total	748

The draft annual return of Councillors' salaries and expenses for 2017/18 is available on the Council's website at www.scotborders.gov.uk.

Remuneration Report

Remuneration of Senior Employees

The table below provides details of the remuneration paid to the Council's Senior Employees and reflects the Council corporate management restructure.

2016/17		2017/18					
Restated Total Remuneration £	Name	Post Title	Salaries, fees and allowances	Taxable Expenses	Compensation for loss of employment	Benefits other than in cash	Total Remuneration
			£	£	£	£	£
Senior Employees in post as at 01/04/17							
131,099	TM Logan	Chief Executive (1)	120,878	-	-	13,848	134,726
21,170	P Barr	Executive Director (2)	21,381	-	-	-	21,381
109,704	JR Dickson	Executive Director (3)	87,935	-	-	-	87,935
86,565	KD Robertson	Chief Financial Officer (4)	87,140	11	-	-	87,151
82,511	J Craig	Service Director Customer & Communities (5)	83,836	16	-	-	83,852
71,723	C Hepburn	Service Director Human Resources	73,350	-	-	-	73,350
82,959	GB Frater	Service Director Regulatory Services (6)	83,536	59	-	-	83,595
87,024	D Manson	Service Director Children & Young People	87,849	-	-	-	87,849
40,643 (FYE 73,525)	D Girdler	Chief Officer Roads (appointed 12 September 2016)	74,260	151	-	-	74,411
-	MR Leys	Interim Chief Social Work Officer (7) (appointed 18 September 2017)	31,069 (FYE 57,952)	-	-	-	31,069
84,069	M Joyce	Service Director Assets & Infrastructure	84,825	69	-	-	84,894
Senior Employees departed post before 01/04/18							
105,818	J McDiarmid	Depute Chief Executive	7,922 (FYE 106,906)	-	47,285	-	55,207
53,891 (FYE 80,697)	EH Torrance	Chief Social Work Officer (8)	-	-	-	-	-
30,635 (FYE 73,525)	B Park	Chief Officer Roads (appointed 5 January 2016, left 31 August 2016)	-	-	-	-	-
987,811		Total	843,981	306	47,285	13,848	905,420

Notes

- (1) TM Logan figure of £134,726 includes £10,606.92 Returning Officer fees for the Scottish Parliament Election on 5 May 16, the European Union Referendum on 23 June 2016, the Local Elections on 4 May 2017, the General Election on 8 June 2017 and the Scottish Parliament Election on 8 June 2017. The "benefits other than in cash" figure for TM Logan relates to car salary sacrifice.
- (2) P Barr seconded to SB Cares (subsidiary) as Managing Director. The above figure represents 20% of time employed by SBC, with the remaining 80% (£85,525) met by SB Cares.
- (3) JR Dickson figure of £87,935 includes £3,853.23 for Depute Returning Officer fees for the Local Elections on 8 May 2017 and for the General Election and Scottish Parliament Election on 8 June 2017. Seconded to Scottish Government from 1 December 2017 from which date 40% of time employed by SBC, with remaining 60% (£21,020) met by the Scottish Government.
- (4) KD Robertson figure of £87,151 includes £200 fee for the General Election and Scottish Government Election on 8 June 2017.
- (5) J Craig figure of £83,852 includes £500 fee for the General Election and Scottish Parliament Election on 8 June 2017.
- (6) GB Frater figure of £83,595 includes £200 fee for the General Election and Scottish Parliament Election on 8 June 2017.
- (7) MR Leys is employed 0.8 of a full time equivalent.
- (8) E Torrance, Chief Social Work Officer, seconded to Health & Social Care Partnership until retirement date of 17 September 2017.

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

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2016/17 and 2017/18:

2017/18

Exit Package Cost band (including special payments) 2017/18	Number of Compulsory Redundancies	Number of Other Agreed Departures	Total Number of Exit Packages by Cost Band	Total cost of Exit Packages in each band £
£0 - £20,000	2	-	2	11,849
£20,001 - £40,000	1	-	1	23,181
£40,001 - £60,000	1	-	1	41,436
£60,001 - £80,000	1	-	1	77,233
£80,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
Total	5	-	5	153,699

The total costs of £0.154m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year.

2016/17

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

Council Subsidiary Bodies

Separate disclosure of the remuneration and pension benefits of senior posts held in the Council subsidiary companies are required to be disclosed.

Bridge Homes LLP – Designated Member, David Robertson – details disclosed in the Council Remuneration and Pension Benefits of Senior Employee tables

SB Cares and SB Supports LLP – Managing Director, Philip Barr – details disclosed in the Council Remuneration and Pension Benefits of Senior Employee tables

Live Borders – Chief Executive Officer, Ewan Jackson – see table below.

2016/17	Name	Post Title	2017/18				In-year pension contributions		Accrued Pension Benefits		
			Salaries, fees and allowances £	Taxable Expenses £	Benefits other than in cash £	Total Remuneration £	For year to 31 March 2017 £	For year to 31 March 2018 £	Type	As at 31 March 2018 £	Difference from 31 March 2017 £
66,955	Ewan Jackson	Chief Executive Officer	75,000	-	-	75,000	12,052	13,500	Pension	16,870	2,991p.a
									Lump Sum	14,725	1579

Remuneration Report

Pension Benefits

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

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

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

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

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much of their pay falls into each tier. The tiers and members contributions rates for 2017/18 were as follows:

Whole Time Pay	2017/18
On earnings up to and including £20,700 (2016/17 £20,500)	5.50%
On earnings above £20,700 and up to £25,300 (2016/17 £20,500 to £25,000)	7.25%
On earnings above £25,300 and up to £34,700 (2016/17 £25,000 to £34,400)	8.50%
On earnings above £34,700 and up to £46,300 (2016/17 £34,400 to £45,800)	9.50%
On earnings above £46,300 (2016/17 £45,800)	12.00%

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

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

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

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

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

Pension Benefits of Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2018 are shown in the following table, together with the contribution made by the Council to each Senior Councillor's pension during the year. It should be noted all Councillor pensions reported below are calculated on career average earnings.

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

Remuneration Report

Councillor Name	Responsibility	In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2017	For year to 31 March 2018	Type	As at 31 March 2018	Difference from 31 March 2017
		£	£		£	£
D Parker	Leader of the Council to 4 May 2017, Convenor from 18 May 2017	6,082	4,660	Pension	6,500 p.a	603 p.a
				Lump Sum	2,621	10
S Haslam	Leader of the Council from 18 May 2017	-	5,414	Pension	632 p.a	632 p.a
G Garvie	Convenor to 4 May 2017, Pensioner from 11 March 2017	4,304	-	Lump Sum	-	-
J Mitchell	Depute Leader of the Council to 4 May 2017	4,561	429	Pension	3,906 p.a	77 p.a
				Lump Sum	1,631	16
M J Cook	Executive Member for HR and Corporate Improvement to 4 May 2017	4,121	388	Pension	4,226 p.a	69 p.a
				Lump Sum	1,877	15
V Davidson	Executive Member for Culture, Sport, Youth & Communities to 4 May 2017	4,121	388	Pension	3,995 p.a	69 p.a
				Lump Sum	1,743	15
D P Moffat	Executive Member for Community Safety to 4 May 2017	4,121	3,148	Pension	4,138 p.a	424 p.a
				Lump Sum	1,623	16
J Brown	Executive Member for Community Planning/Vice Convenor to 4 May 2017	4,121	3,148	Pension	5,152 p.a	470 p.a
				Lump Sum	4,976	132
A Aitchison	Executive Member for Education to 4 May 2017, Executive Member for Neighbourhoods & Locality Services from 18 May 2017	4,121	3,981	Pension	4,158 p.a	583 p.a
				Lump Sum	1,578	52
S Bell	Executive Member for Economic Development to 4 May 2017, Chair of Audit & Scrutiny from 18 May 2017	4,125	3,337	Pension	2,490 p.a	418 p.a
				Lump Sum	-	-
G Edgar	Executive Member for Roads and Infrastructure to 4 May 2017 and from 18 May 2017 (also Locality Committee Chair)	4,121	3,981	Pension	2,586 p.a	515 p.a
				Lump Sum	-	-
D Paterson	Executive Member for Environmental Services to 4 May 2017	4,121	3,148	Pension	8,910 p.a	591 p.a
				Lump Sum	16,253	497
R Smith	Executive Member for Planning and Environment to 4 May 2017	4,121	388	Pension	3,819 p.a	58 p.a
				Lump Sum	1,641	8
T Weatherston	Executive Member for Adult Social Care/Depute Convenor from 18 May 2017	3,041	3,879	Pension	8,066 p.a	726 p.a
				Lump Sum	14,961	501
C Hamilton	Executive Member for Children & Young People from 18 May 2017	-	3,593	Pension	420 p.a	420 p.a
				Lump Sum	-	-
G Turnbull	Executive Member for Finance from 18 May 2017	3,041	3,879	Pension	3,733 p.a	567 p.a
				Lump Sum	1,485	54
M Rowley	Executive Member for Business & Economic Development from 18 May 2017	-	3,593	Pension	420 p.a	420 p.a
				Lump Sum	-	-
S Mountford	Executive Member for Transformation & HR and Locality Chair from 18 May 2017	3,041	3,879	Pension	2,063 p.a	532 p.a
				Lump Sum	-	-
E Jardine	Executive Member for Culture & Sport from 18 May 2017	-	3,593	Pension	420 p.a	420 p.a
				Lump Sum	-	-
T Miers	Executive Member for Planning and Environment from 18 May 2017	-	3,593	Pension	420 p.a	420 p.a
				Lump Sum	-	-
S Marshall	Locality Committee Chair from 18 May 2017	3,041	3,285	Pension	3,427 p.a	470 p.a
				Lump Sum	1,279	36
J Fullarton	Locality Committee Chair from 18 May 2017	3,041	3,285	Pension	3,759 p.a	451 p.a
				Lump Sum	1,541	27
R Tatler	Locality Committee Chair from 18 May 2017	-	2,999	Pension	350 p.a	350 p.a
				Lump Sum	-	-
W McAteer	Police, Fire & Rescue and Safer Communities Board Chair from 18 May 2017	3,041	3,879	Pension	-	-
				Lump Sum	-	-
Total		70,286	71,867			

Notes

- (1) Councillors Renton and Ballantyne (left office on 4 May 2017) were not part of the Pension Scheme.
- (2) Some Senior Councillors have transferred in previous rights to the Local Government Pension Scheme which has purchased pension in addition to their statutory benefits.

Remuneration Report

Pension Benefits of Senior Employees

The pension entitlements for Senior Employees for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each Senior Employee's pension during the full year to 31 March 2018.

Name	Post Title	In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2017	For year to 31 March 2018	Type	As at 31 March 2018	Difference from 31 March 2017
Senior Employees in post as at 01/04/17		£	£		£	£
TM Logan	Chief Executive	20,915	21,577	Pension	41,352 p.a	3,047 p.a
				Lump Sum	67,919	763
P Barr (1)	Executive Director (2)	3,811	3,849	Pension	25,019 p.a	2,558 p.a
				Lump Sum	22,835	226
JR Dickson	Executive Director (3)	18,731	18,918	Pension	13,361 p.a	2,404 p.a
				Lump Sum	-	-
KD Robertson	Chief Financial Officer	15,494	15,649	Pension	32,149 p.a	2,198 p.a
				Lump Sum	53,977	534
J Craig	Service Director Neighbourhood Services	14,852	15,001	Pension	33,556 p.a	2,133 p.a
				Lump Sum	60,053	594
C Hepburn	Chief Human Resources Officer	12,910	13,203	Pension	12,617 p.a	1,808 p.a
				Lump Sum	2,442	55
GB Frater	Service Director Regulatory Services	14,852	15,001	Pension	43,465 p.a	2,231 p.a
				Lump Sum	89,780	888
D Manson	Service Director Children and Young People	15,664	15,813	Pension	5,643 p.a	1,955 p.a
				Lump Sum	-	-
D Girdler	Chief Officer Roads (appointed 12 September 2016)	7,316	13,367	Pension	2,424 p.a	1,586 p.a
				Lump Sum	-	-
MR Leys (2)	Interim Chief Social Work Officer (appointed 18 September 2017)	-	10,120	Pension	1,729 p.a	-
				Lump Sum	-	-
M Joyce	Service Director Assets & Infrastructure	15,242	15,269	Pension	6,385 p.a	1,129 p.a
				Lump Sum	-	-
Senior Employees departed post before 01/04/18						
J McDiarmid	Depute Chief Executive (left 2 April 2017)	19,047	107	Pension	6,361 p.a	324 p.a
				Lump Sum	-	-
EH Torrance (3)	Chief Social Work Officer	9,684	-	Pension	-	-
				Lump Sum	-	-
B Park	Chief Officer Roads (appointed 5 January 2016, left 31 August 2016)	5,514	-	Pension	-	-
				Lump Sum	-	-
Total		174,032	157,874			

Notes

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

- (1) P Barr seconded to SB Cares (subsidiary) from 1 April 2015. The above figure for in year contributions represents 20% of time employed by SBC.
- (2) MR Leys is employed 0.8 of a full time equivalent.

Remuneration Report

(3) E Torrance seconded to Health & Social Care Partnership from 1 December 2016 until retirement date of 17 September 2017.

Trade Union (Facility Time Publication Requirements) Regulations 2017

The Council is now required to publish details of Trade Union facility time incurred during the year, both in the financial statements and also on the Council website. The regulations apply from 1 April 2017 and require relevant public sector employers to collect and publish, on an annual basis, a range of information in relation to their usage and spend on trade union (TU) facility time in respect of their employees who are TU representatives. Facility time is the provision of paid or unpaid time off from an employee's normal role to undertake TU duties and activities as a TU representative.

The regulations require Local Authorities to collate and publish the following information:-

Scottish Borders council has 32 staff members who are TU representatives (30.65 FTE)

The percentage of working time spent on TU activities by the 32 TU representatives can be broken down as follows:-

Percentage of Time	Number of TU Representatives
1% - 50%	26
51% - 99%	4
100%	2
Total	32

The percentage of the total pay bill spent on facility time is 0.107%.

100% of paid facility time hours is spent on trade union activities.

Shona Haslam
Leader
Scottish Borders Council
25 September 2018

Tracey Logan
Chief Executive

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council. Further detail on the movement in reserves can be found at Note 31 on page 100.

Movement in reserves during 2016/17

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 01/04/2016	(23,163)	(6,578)	(102)	(1,321)	(31,164)	(35,697)	(66,861)	

Movement in reserves during 2016/17

Total Comprehensive Income & Expenditure	5,343	-	-	-	5,343	63,754	69,097	C I & E
Adjustments between accounting basis & Funding basis under regulations	(475)	57	102	196	(119)	119	-	31
Increase or Decrease In 2016/17	4,868	57	102	196	5,224	63,873	69,097	
Balance at 31/03/2017 carried forward	(18,294)	(6,521)	0	(1,125)	(25,940)	28,176	2,236	

Movement in reserves during 2017/18

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 01/04/2017	(18,294)	(6,521)	0	(1,125)	(25,940)	28,176	2,236	

Movement in reserves during 2017/18

Total Comprehensive Income & Expenditure	29,081	-	-	-	29,081	(122,666)	(93,585)	C I & E
Adjustments between accounting basis & Funding basis under regulations	(30,513)	(1,059)	(426)	62	(31,936)	31,936	-	31
Increase or Decrease In 2017/18	(1,432)	(1,059)	(426)	62	(2,855)	(90,730)	(93,585)	
Balance at 31/03/2018 carried forward	(19,726)	(7,580)	(426)	(1,063)	(28,795)	(62,554)	(91,349)	

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

In accordance with Councils new departmental structure the Comprehensive Income and Expenditure Statement has been restated for 2016/17.

2016/17 Restated				2017/18			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
9,079	(873)	8,206	Culture & Sport	10,616	(417)	10,199	
55,246	(13,536)	41,710	Asset & Infrastructure	56,682	(14,763)	41,919	
2,738	(1,741)	997	Economic Development & Corporate Services	2,369	(1,102)	1,267	
12,337	(62,826)	49,511	Health & Social Care	120,283	(69,278)	51,005	
19,935	(2,559)	17,376	Children & Young People	140,659	(4,837)	135,822	
45,484	(33,366)	12,118	Customer & Communities	45,861	(29,964)	15,897	
20,354	(149)	20,205	Finance, IT & Procurement	16,235	(215)	16,020	
2,114	-	2,114	Human Resources	6,091	(404)	5,687	
13,069	(5,686)	7,383	Regulatory Services	13,321	(5,312)	8,009	
4,143	-	4,143	Non-Distributed Costs	4,118	-	4,118	
384,499	(120,736)	263,763	Net Cost of Services	416,235	(126,292)	289,943	
10,939	(11,030)	(91)	Roads Trading Operation (Surplus)/Deficit (External)	8,027	(7,936)	91	8
			Other Operating Expenditure				
1,598	(1,581)	17	(Gain)/Loss on Disposal of Assets	291	(434)	(143)	
			Financing & Investment Income and Expenditure				
11,879	-	11,879	Interest Payable & Similar Charges	11,681	-	11,681	29
-	(55)	(55)	Interest Receivable & Similar Income	-	(5)	(5)	
22,468	(17,293)	5,175	Net Interest Expense on the Net Defined Benefit Liability	20,988	(15,059)	5,929	20
			Taxation and Non-Specific Grant Income				
-	(170,200)	(170,200)	Revenue Support Grant	-	(170,707)	(170,707)	
-	(33,594)	(33,594)	Non-Domestic Rates Pool for Scotland	-	(32,673)	(32,673)	
10,162	(58,004)	(47,842)	Council Tax	12,945	(65,657)	(52,712)	
-	(23,709)	(23,709)	Capital Grants and Contributions	-	(22,323)	(22,323)	28
441,546	(436,203)	5,343	(Surplus)/Deficit on Provision of Services	470,167	(441,085)	29,081	

Comprehensive Income and Expenditure Statement

2016/17 Restated				2017/18			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
441,546	(436,203)	5,343	(Surplus)/Deficit on Provision of Services	470,167	(441,085)	29,081	
		(5,032)	(Surplus)/Deficit on revaluation of Non Current Assets			(53,605)	
		(723)	Any Other (Gains) Or Losses			1,431	
		69,509	Actuarial (gains)/losses on pension assets/liabilities			(70,492)	
		63,754	Other Comprehensive Income and Expenditure			(122,666)	
		69,097	Total Comprehensive (Income)/Expenditure			(93,585)	

Balance Sheet

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

2016/17 £'000		2017/18 £'000	Notes
304,560	Property Plant and Equipment	378,528	12
17,500	Other Land and Buildings	16,397	}
123,534	Vehicle, Plant, Furniture & Equipment	125,999	
3,838	Infrastructure	4,742	
27,259	Surplus Assets	9,807	
1,036	Assets Under Construction	1,036	13
52	Heritage Assets	6	14
8,467	Intangible Assets	5,770	29
486,246	Long Term Assets	542,285	
411	Intangible Assets - Current	201	14
-	Short Term Investments	-	
906	Inventories	677	24
46,620	Short Term Debtors	52,207	30
(10,150)	less Bad Debt Provision	(10,823)	
7,904	Cash and Cash Equivalents	10,825	34
45,691	Current Assets	53,087	
(12,300)	Short Term Borrowing	(8,288)	29
(53,155)	Short Term Creditors	(50,129)	30
(804)	Provisions	(512)	25
(66,259)	Current Liabilities	(58,929)	
(184,215)	Long Term Borrowing	(194,433)	29
(51,252)	Deferred Liabilities	(70,323)	17
(598)	Due to Trust Funds and Common Good	(696)	
(3,972)	Provisions	(3,767)	25
(11,852)	Capital Grants Receipts in Advance	(14,804)	
(251,889)	Long Term Liabilities	(284,023)	
213,789	Net Assets excluding pension liability	252,420	
(216,025)	Pension Liability	(161,071)	20
(2,236)	Net Assets/(Liabilities) including pension liability	91,349	

Balance Sheet

2016/17 £'000	Financed By:	2017/18 £'000	Notes
	Useable Reserves		
(6,521)	Capital Fund	(7,580)	} 31
(18,294)	General Fund Balance	(19,726)	
-	Property Maintenance Fund	(426)	
(1,125)	Insurance Fund	(1,063)	
	Unusable Reserves		
(127,102)	Capital Adjustment Account	(111,848)	} 31
4,980	Financial Instruments Adjustment Account	4,773	
(72,079)	Revaluation Reserve	(122,328)	
216,025	Pension Reserve	161,071	
6,352	Employee Statutory Adjustment Account	5,778	
2,236	Total Reserves	(91,349)	

The unaudited accounts were issued on 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Cash Flow Statement

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

2016/17 £'000		2017/18		Notes
		£'000	£'000	
5,343	Net (Surplus) or deficit on the provision of services	29,081		
(23,364)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(73,120)		32
23,890	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	22,198		32
5,869	Net Cash Flows From Operating Activities		(21,841)	
	Investing Activities			
45,177	Purchase of PP&E, investment property and intangible assets	46,963		
(1,581)	Proceeds from PP&E, investment property and intangible assets	(434)		
-	Purchase/(Disposal) of short & long term investments	-		
(21,087)	Other Items which are Investing Activities	(25,152)		
22,509	Net Cash Flows from Investing Activities		21,377	
	Financing Activities			
(21,300)	Cash received from loans & other borrowing	(10,300)		
1,613	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,655		
63	Repayments of short and long term borrowing	4,063		
(182)	Other items which are financing activities	125		
(19,806)	Net Cash Flows from Financing Activities		(2,457)	
8,572	Net (Increase) or Decrease in Cash and Cash Equivalents		(2,921)	
16,476	Cash and Cash Equivalents at the beginning of the reporting period		7,904	
7,904	Cash and Cash Equivalents at the end of the reporting period		10,825	34
8,572	Movement		(2,921)	

Notes to the Core Financial Statements

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2017/18 financial year and its position 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 practices. 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).

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

Accruals of Income and Expenditure

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

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

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

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

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

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

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

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

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

Notes to the Core Financial Statements

Cash and Cash Equivalents

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

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

Charges to Revenue for Non-Current Assets

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

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

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

Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post Employment Benefits

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

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

Notes to the Core Financial Statements

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

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (based on the yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve).

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

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

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

Service cost comprising:

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

Remeasurements comprising:

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

Notes to the Core Financial Statements

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Scottish Borders Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have been a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Financial Instruments

Financial assets and liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument.

Notes to the Core Financial Statements

Financial Liabilities:

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

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

Financial Assets:

Financial assets can be classified into two types:

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

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

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

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

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

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

Notes to the Core Financial Statements

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

Fair Value Measurement:

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

Government Grants

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

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

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

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

Notes to the Core Financial Statements

Heritage Assets

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

- **Museum Collection**
The collection of various artefacts is reported on the Balance Sheet using the best available valuations; the Museum Service is working towards compliance with the Code. Where possible external valuations will be used to supplement the professional valuations carried out by Museums Service Officers. The artefacts are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Fine Arts Collection**
The fine art picture collection is reported on the Balance Sheet on the basis of the professional opinion of value by the officers of the Museum Service using where possible the latest information on comparable pictures from sale rooms. As with the Museum Collection the Service is working towards more external valuation of the collection. The pictures are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Archive Centre Collection**
Due to the unique nature and volume of the papers held in the Archive Centre no valuation of the collection has been undertaken and it is felt that such a task would not represent value for money. The papers are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Monuments, Memorials and Statues Collection**
The Property and Facilities Service look after all of the War Memorials, various monuments and statues and these are valued on the basis of Community Assets so are reported on the Balance Sheet at no value. It is felt that any other basis of valuation would not represent value for money. Depreciation would be inappropriate to charge in conjunction with the valuation basis used.

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

Intangible Assets

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

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

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

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

Inventories

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

Investment Property

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

Notes to the Core Financial Statements

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability.
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Notes to the Core Financial Statements

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Private Finance Initiative (PFI)

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Notes to the Core Financial Statements

Property, Plant and Equipment

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

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

The Council has a de minimis limit of £5,000 for single items of expenditure and £20,000 for groups of items costing less than £1,000 each. Items below these amounts are charged to the Comprehensive Income and Expenditure Statement. These limits have been applied in order to exclude individual assets, or works below these amounts, from the asset register.

Measurement: assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements

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

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

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

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

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

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

Notes to the Core Financial Statements

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

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

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

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Notes to the Core Financial Statements

Note 1 First Time Adoption of Accounting Standards

There has been no first time Adoption of Accounting Standards in 2017/18.

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

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

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

IAS 7 Statement of Cash Flows

Note 3 Critical Judgements in Applying Accounting Policies

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

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

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

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

The items in the authority's balance sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year is as follows;

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending in repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.

Fair Value Measurements

When the fair values of financial assets and financial liabilities cannot be measured based on quoted process in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Significant changes in any of the unobservable inputs would result in a significant lower or higher fair value measurement for both surplus and financial assets.

Information about the valuations techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 12 and 29.

Notes to the Core Financial Statements

Provisions

The authority has made a provision of £0.238m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the authority or that precedents set by other authorities in the settlement of claims will be applicable. An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.024m to the provision needed.

Pensions Liability

Estimation of the net liability to pay pensions 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. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £14.767m. However, the assumptions interact in complex ways. During 2017/18, the authority's actuaries advised that the net pension liability had decreased by £54.954m as a result of estimates being corrected and updating assumptions.

Arrears

At 31 March 2018, the authority had Accounts Receivable debtors due of £10.731m, Council Tax debtors of £19.448m and Non Domestic Rate debtors of £4.640m. Provision for bad debts amounted to £0.926m, £9.896m and £3.357m respectively. However, in the current economic climate it is not certain that such an allowance would be sufficient. If collection rates were to deteriorate, an increase in bad debts of 10% would require an additional £0.93m for Accounts Receivable debtors, £1.945m for Council Tax debtors and £0.336m for Non Domestic Rate debtors.

Notes to the Core Financial Statements

Note 5 Expenditure and Funding Analysis

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

			Restated 2016/17			2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement				Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000				£'000	£'000	£'000
6,458	1,748	8,206	Culture & Sport			6,146	4,053	10,199
32,695	9,014	41,709	Asset & Infrastructure			28,959	12,960	41,919
487	509	996	Economic Development & Corporate Services			651	616	1,267
47,858	1,653	49,511	Health & Social Care			49,409	1,596	51,005
113,065	4,312	117,377	Children & Young People			111,065	24,757	135,822
16,008	(3,890)	12,118	Customer & Communities			14,138	1,760	15,897
36,106	(15,901)	20,205	Finance, IT & Procurement			31,698	(15,678)	16,020
2,063	50	2,113	Human Resources			5,450	236	5,687
6,811	574	7,385	Regulatory Services			6,691	1,320	8,009
-	4,143	4,143	Non Distributed Costs			-	4,118	4,118
261,551	2,212	263,763	Net Cost of services			254,207	35,738	289,944
(256,682)	(1,737)	(258,419)	Other Income and Expenditure			(255,639)	(5,225)	(260,863)
4,869	475	5,343	Surplus or Deficit on Provision of Services			(1,432)	30,513	29,081
(23,163)			Opening General Fund Balance			(18,294)		
4,869			Less/Plus Surplus or (Deficit) on General Fund			(1,432)		
(18,294)			Closing General Fund as 31 March			(19,726)		

Notes to the Core Financial Statements

Note to the Expenditure and Funding Analysis

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

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Culture & Sport	4,054	-	(1)	4,053
Asset & Infrastructure	10,760	2,825	(625)	12,960
Economic Development & Corporate Services	488	203	(75)	616
Health & Social Care	550	1,101	(55)	1,596
Children & Young People	22,621	2,223	(88)	24,756
Customer & Communities	303	1,522	(65)	1,760
Finance, IT & Procurement	(16,064)	391	(4)	(15,677)
Human Resources	-	320	(84)	236
Regulatory Services	510	964	(154)	1,320
Non Distributed Costs	4,059	59	-	4,118
	27,281	9,608	(1,151)	35,738
Other income and expenditure from the Expenditure and Funding Analysis	(11,448)	5,929	294	(5,225)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	15,833	15,537	(857)	30,513

Adjustments between Funding and Accounting Basis 2016/17 (Restated)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Culture & Sport	1,378	3	367	1,748
Asset & Infrastructure	9,897	1,092	(1,975)	9,014
Economic Development & Corporate Services	440	63	6	509
Health & Social Care	1,023	390	240	1,653
Children & Young People	2,114	931	1,267	4,312
Customer & Communities	412	461	(4,763)	(3,890)
Finance, IT & Procurement	(16,379)	275	203	(15,901)
Human Resources	-	50	-	50
Regulatory Services	74	361	139	574
Non Distributed Costs	7,957	(3,877)	63	4,143
	6,916	(251)	(4,453)	2,212
Other income and expenditure from the Expenditure and Funding Analysis	(11,605)	5,175	4,693	(1,737)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(4,689)	4,924	240	475

Notes to the Core Financial Statements

(Note 1) Adjustments for Capital Purposes

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

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

(Note 2) Changes for Pension Adjustments

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

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

(Note 3) Other Differences

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

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

Notes to the Core Financial Statements

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

Expenditure/Income	Restated 2016/17 £'000	2017/18 £'000
Expenditure		
Employee Benefits Expenses	148,192	148,573
Other Service Expenses	242,590	223,549
Support Services Recharges	2,424	402
Depreciation, Amortisation, Impairment	21,739	49,731
Interest Payments	11,879	11,681
Loss on Disposal of Assets	17	-
Total Expenditure	426,841	433,936
Income		
Fees, Charges and Other Service Income	(146,098)	(126,292)
Gain on Disposal of Assets	-	(143)
Interest and Investment Income	(55)	(5)
Income from Council Tax and Non Domestic Rates	(81,436)	(85,385)
Government Grants and Contributions	(193,909)	(193,030)
Total Income	(421,498)	(404,855)
Surplus or Deficit on the Provision of Services	5,343	29,081

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2017/18 financial year.

Note 7 Prior Year Adjustments

Prior year adjustments, which have been agreed by external audit, have been made to previous year's fixed asset balances during 2017/18.

Note 8 Significant Trading Operation

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

2016/17 Restated £'000		2017/18 £'000	3 Year Cumulative £'000
(10,980)	Turnover for the Year	(7,800)	(25,473)
(91)	(Surplus) / Deficit	91	(97)

SBc Contracts undertakes a wide range of activities including:

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

Notes to the Core Financial Statements

SBc Contracts employs 41 manual workers and 15 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The organisation continued to contribute strongly to Council resources both directly and indirectly through:

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

In 2017/18 SBc Contracts recorded an annual operating surplus of £0.266m against a revised budget target of a £0.449m surplus. After technical adjustments for pension (IAS 19) and Employee benefits accrual the net final position was £0.012m deficit.

In 2017/18 turnover decreased by £3m, or 17% to £15m. Of the total £8 million, 52% was generated by external work. The order book remains strong with major works programmed to start or continue on Clackmae Bridge, Lowood Bridge, and Langlee Waste Transfer Project, as well as the St Johns Primary School in Edinburgh. A five year framework agreement for road surface dressing for South Lanarkshire Council is due to commence this year, along with our current ongoing framework agreement with Amey for the South East Trunk Roads.

SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £5.4 million during 2017/18.

Significant trading operations are required to at least achieve a break-even figure over rolling three-year periods. For the 3 year period ending in financial year 2017/18 SBc Contracts recorded a cumulative external total surplus of £0.097 million.

Note 9 Agency Work

The Council acts as an intermediary for Scottish Water, collecting money on their behalf. In 2017/18 Scottish Borders Council received £0.358m in commission from Scottish Water as part of the agency agreement. This amount is set in legislation by the new Water Order which came into force in April 2014 covering the period April 2014 to March 2018.

Note 10 Related Parties

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

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

Members of the Council have direct control over the financial and operating policies of the Council. A review of the interests declared in the Members' Register of Interests confirmed that the Council had no material transactions with any company in which any member had an interest. The total value of transactions between the Council and companies in which members have an interest in 2017/18 was £0.2m (2016/17: £0.2m). The Remuneration Report shows the total allowances paid to senior members in 2017/18. The Members' Register of Interests can be inspected and is available on the Council's web site at www.scotborders.gov.uk

A review by departments of their registers of interests confirmed that there were no material transactions between the Council and any company in which any officer had an interest. The total value of transactions between the Council and companies in which Officers have an interest is £0.4m.

Notes to the Core Financial Statements

During 2017/18, the Scottish Borders Council Pension Fund had an average balance of £1.98m (2016/17: £2.286m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2016/17: £0.006m). In addition the Council charged the Pension Fund £0.36m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement is as follows:

	2016/17	2017/18
Due to/ (from) the Scottish Borders Council Pension Fund	£ 0.104m	£1.037m

The Council provided routine material financial assistance to other bodies in 2017/18 as follows:

- Jedburgh Leisure Facilities Trust £0.123m
- VisitScotland £0.170m

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

Resource Transfer – a total of £2.555m was transferred from NHS Borders and utilised as follows:

Children's Services	£0.107m
Older People	£1.220m
Adults with Learning Difficulties	£0.945m
People with Mental Health Needs	£0.075m
Support Services	£0.208m

Other funding from NHS Borders in 2017/18 to support services is:

Older people	£6.587m
Adults with Learning Difficulties	£1.672m
People with Mental Health Needs	£0.302m
People with Physical Difficulties	£0.312m
Other Support Services	£0.412m

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

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.732m in 2017/18 with a contribution from the NHS Borders of £0.251m. Direction of Social Care Funding by the Integration Joint Board to the equipment budget also accounted for £0.285m of this.

Galashiels Resource Centre

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

Notes to the Core Financial Statements

Scottish Borders Council is a corporate member of Tweedside NHT 2011 LLP and Bridge Homes LLP, which have been established to assist in the delivery of affordable housing, in accordance with the Scottish Government's National Housing Trust (NHT) initiative. The Council has consent to borrow (from the Scottish Government) to finance loans to Tweedside NHT 2011 LLP and Bridge Homes LLP in respect of housing units. The Council made no further advances to Tweedside NHT 2011 LLP during 2017/18 and received a net capital repayment from the LLP of £2.977m during the same period. The Council paid no further advances to Bridge Homes LLP during 2017/18 and received no capital repayment in the year. The Council received interest on the advance from both LLP's. The Council's net advances to Tweedside NHT 2011 LLP and Bridge Homes LLP are shown within long term debtors on the Council's balance sheet. Bridge Homes LLP have been consolidated into the Council's Group Accounts as a Subsidiary.

SB Supports is a registered Limited Liability Partnership between Scottish Borders Council and SBC Nominees. This was established on 1st April 2015 to work in partnership on the provision of adult social care services. In 2017/18 the Council made a payment of £17.759m to SB Supports.

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered. In 2017/18 the Council made a payment of £50.040m to the Board with corresponding income of the same value shown within the Comprehensive Income & Expenditure Statement. At 31st March 2018 a debtor and creditor figure of £10.262m between the Board and Scottish Borders Council was outstanding.

Live Borders, an integrated trust providing culture and leisure services on behalf of Scottish Borders Council was established on 1st April 2016. Services provided by the trust include Sport and Leisure, Arts, Libraries, Archives, Museums and Galleries. A payment of £5.975m was made to the trust in 2017/18.

Note 11 Audit Remuneration

In 2017/18 the agreed audit fee for the year was £0.270m in respect of services provided by Audit Scotland (2016/17 £0.263m plus a further £7k for the audit of Common Good and Trust Funds). A further £6,000 fee was agreed in respect of services provided by Audit Scotland in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts.

During the year additional non-audit work was carried out by Audit Scotland to assess the adequacy of the financial provision for landfill as required by SEPA. A separate fee of £3,000 was charged for this work.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2017/18

	Property Plant & Equipment					Heritage Assets	Total Assets
	Other Land & Buildings	VPFE *	Infrastructure	Assets under Construction	Surplus Assets		
	£'000	£'000	£'000	£'000	£'000		
Gross book value (GBV) at 31 March 2017	343,161	53,792	213,216	27,259	4,026	1,036	642,490
Prior Period adjustment	(510)	(44)	52	(695)	(181)	-	(1,378)
Revised Gross book value (GBV) at 31 March 2017	342,651	53,748	213,268	26,564	3,845	1,036	641,112
Acquisitions & Recognition in the year	3,789	4,706	10,939	39,141	12	-	58,587
Transfers between categories	49,749	16	-	(55,898)	6,133	-	-
Revaluation Gain	32,520	-	-	-	302	-	32,822
Revaluation Loss	(28,416)	-	-	-	(5,185)	-	(33,601)
Impairments	-	-	-	-	-	-	-
Disposals	(94)	(3,621)	-	-	(250)	-	(3,965)
Gross book value (GBV) at 31 March 2018	400,199	54,849	224,207	9,807	4,857	1,036	694,955
Cumulative depreciation at 31 March 2017	(38,601)	(36,292)	(89,682)	-	(188)	-	(164,763)
Prior Period adjustment	33	(452)	241	-	103	-	(75)
Revised Cumulative depreciation at 31 March 2017	(38,568)	(36,744)	(89,441)	-	(85)	-	(164,838)
Depreciation for the year	(12,235)	(5,033)	(8,574)	-	(100)	-	(25,942)
Transfers between categories	667	-	-	-	(667)	-	-
Revaluation Gain	27,419	-	-	-	50	-	27,469
Revaluation Loss	4,942	-	-	-	655	-	5,597
Impairments	(3,927)	(286)	(193)	-	-	-	(4,406)
Disposals	31	3,611	-	-	32	-	3,674
Cumulative depreciation at 31 March 2018	(21,671)	(38,452)	(98,208)	-	(115)	-	(158,446)
Net book value at 31 March 2018	378,528	16,397	125,999	9,807	4,742	1,036	536,509
Net book value at 31 March 2017	304,560	17,500	123,534	27,259	3,838	1,036	477,727
Prior Period adjustment	(477)	(496)	293	(695)	(78)	0	(1,453)
Revised Net book value at 31 March 2017	304,083	17,004	123,827	26,564	3,760	1,036	476,274

* VPFE – Vehicles, Plant, Furniture and Equipment

Notes to the Core Financial Statements

The Council had no investment properties in 2017/18.

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

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

Comparative Movements in 2016/17

	Property Plant & Equipment					Heritage Assets	Total Assets
	Other Land & Buildings	VPFE	Infrastructure	Assets under Construction	Surplus Assets		
	£'000	£'000	£'000	£'000	£'000		
Gross book value (GBV) at 31 March 2016	336,032	58,923	171,150	33,665	4,240	1,036	605,046
Acquisitions & Recognition in the year	6,026	9,440	15,219	21,196	-	-	51,881
Transfers between categories	1,834	(2,314)	27,154	(27,462)	690	-	(98)
Revaluation Gain	2,244	-	-	-	342	-	2,586
Revaluation Loss	(1,826)	-	-	(140)	-	-	(1,966)
Impairments	(582)	(337)	(141)	-	(139)	-	(1,199)
Disposals	(567)	(11,920)	(166)	-	(1,107)	-	(13,760)
Gross book value (GBV) at 31 March 2017	343,161	53,792	213,216	27,259	4,026	1,036	642,490
Cumulative depreciation at 31 March 2016	(33,046)	(43,904)	(82,115)	-	(124)	-	(159,189)
Depreciation for the year	(9,584)	(4,857)	(7,232)	-	(110)	-	(21,783)
Transfers between categories	59	598	(501)	-	(58)	-	98
Revaluation Gain	3,882	-	-	-	87	-	3,969
Revaluation Loss	(19)	-	-	-	-	-	(19)
Impairments	-	-	-	-	-	-	-
Disposals	107	11,871	166	-	17	-	12,161
Cumulative depreciation at 31 March 2017	(38,601)	(36,292)	(89,682)	-	(188)	-	(164,763)
Net book value at 31 March 2017	304,560	17,500	123,534	27,259	3,838	1,036	477,727
Net book value at 31 March 2016	302,986	15,019	89,035	33,665	4,116	1,036	445,857

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2018 the Council has entered into a number of commitments for the construction or enhancement of Property, Plant and Equipment in future years, this is budgeted to cost £8.256m. These commitments can be categorised as follows:-

	Capital Commitments as at 31 March 2018 £'000
Asset & Infrastructure	1,868
Economic Development & Corporate Services	1,327
Children & Young People	5,061
Total	8,256

Valuation and Depreciation

Land and Buildings

- The Council has adopted a 5-year rolling programme of revaluations whereby each individual asset will be examined during that term in line with events and planned capital expenditure. During 2017/18 the fixed assets relating to Education and Lifelong Learning and Surplus Properties were re-valued. The valuation is an ongoing process carried out throughout the year to arrive at the final valuation figure.
- Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. In accordance with IFRS13 Fair Value measurement, Surplus assets are now valued at highest and best use. Properties were valued by the Council's Estates Manager, N.Hastie MRICS.

Vehicles, Plant, Furniture and Equipment

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

Infrastructure

- Infrastructure was valued at depreciated historic cost.

Depreciation

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

Depreciation has been directly charged to services.

Notes to the Core Financial Statements

Revaluations

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

Revaluation Cycle

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

- 1 April 2017 – Education & Lifelong Learning and Surplus Properties
- 1 April 2016 – Social Work, Resources and Surplus Properties
- 1 April 2015 – Technical Services and Surplus Properties
- 1 April 2014 – Common Good, Trust and Surplus Properties
- 1 April 2013 – Planning & Economic Development, New West Linton Primary School and Surplus Properties

Planning & Economic Development Properties will be revalued as at 1 April 2018 with the resulting adjustments incorporated into the 2018/19 accounts of the Council.

	Property Plant & Equipment					Heritage Assets	Total Assets
	Other Land & Buildings	VPFE	Infrastructure	Assets under Construction	Surplus Assets		
	£'000	£'000	£'000	£'000	£'000		
Carried at Historical Cost	107,407	54,576	224,109	9,807	2,464	1,036	399,399
New Certified Valuation							
1st April 2017	36,465	-	-	-	(4,178)	-	32,287
1st April 2016	6,126	-	-	-	429	-	6,555
1st April 2015	7,742	273	89	-	234	-	8,338
1st April 2014	-	-	-	-	339	-	339
Prior to & Including 1st April 2013	242,459	-	9	-	5,569	-	248,037
Gross book value (GBV) at 31 March 2018	400,199	54,849	224,207	9,807	4,857	1,036	694,955

Notes to the Core Financial Statements

Note 13 Heritage Assets

	Museum Collection £'000	Fine Arts Collection £'000	Monuments, Memorials & Statues £'000	Totals Tangible Fixed Assets £'000	Total Heritage Assets £'000
Cost or Valuation at 31 March 2016	161	771	82	1,014	1,014
Prior Year Adjustment	-	-	22	22	22
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2017	161	771	104	1,036	1,036
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2018	161	771	104	1,036	1,036

There were no revaluations of heritage assets during the year.

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

Museum Collection

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

Fine Arts Collection

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

Archive Centre Collection

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

Monuments, Memorials and Statues Collection

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

Notes to the Core Financial Statements

Note 14 Intangible Assets

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

2016/17		2017/18
£'000		£'000
1,825	Gross book value (GBV) at 31 March	1,730
-	Prior Period adjustment	-
1,825	Revised Gross book value (GBV) at 31 March	1,730
10	Expenditure in the year	2
98	Transfers	-
-	Impairments	-
(203)	Disposals	-
1,730	Gross book value (GBV) at 31 March	1,732
(1,595)	Cumulative amortisation at 31 March	(1,678)
-	Prior Period adjustment	22
(1,595)	Revised Cumulative amortisation at 31 March	(1,656)
(188)	Amortisation for the year	(70)
(98)	Transfers	-
203	Disposals	-
(1,678)	Cumulative amortisation at 31 March	(1,726)
52	Net book value at 31 March	6

There were no revaluations of intangible assets in 2016/17 or 2017/18.

Carbon Reduction Commitment allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset is reduced by the allowances surrendered with the liability decreased.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2016/17 or 2017/18.

Note 16 Private Finance Initiatives and Similar Contracts

During 2006/07 the Council entered into a Public Private Partnership (PPP) for the provision of new secondary schools in Earlston, Duns and Eyemouth. These assets are recognised on the Council's Balance Sheet. During 2017/18 the Council entered into an agreement for the provision of a new secondary school in Kelso, this has been recognised as an asset on the Council's Balance Sheet.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2018 are as follows:

Notes to the Core Financial Statements

	Payments for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2018/19	4,982	3,062	2,766	10,810
Payable within two to five years	21,887	11,862	11,192	44,941
Payable within six to ten years	34,055	14,714	13,147	61,916
Payable within eleven to fifteen years	41,487	16,879	10,710	69,076
Payable within sixteen to twenty years	50,190	20,377	6,609	77,176
Payable within twenty one to twenty five years	10,264	6,491	3,239	19,994
Total	162,865	73,385	47,663	283,913

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

Note 17 Leases

Council as Lessee

Finance Leases

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

2016/17 £'000		2017/18 £'000
	Net Asset Value	
50,467	Land and buildings	84,316
50,467		84,316

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The balances shown under Land and Buildings above (with the exception of £0.012m in relation to industrial units), relate entirely to the Council's PPP arrangement for the provision of four secondary schools, as detailed in Note 16. The minimum lease payments are made up of the following amounts:

Land & Buildings 2016/17 £'000		Land & Buildings 2017/18 £'000
	Finance Lease Liabilities	
1,692	Not later than 1 year	3,060
6,649	Later than 1 year and not later than 5 years	11,863
44,603	Later than 5 years	58,460
	Finance Costs Payable in Future Years	
2,661	Not later than 1 year	2,766
9,827	Later than 1 year and not later than 5 years	11,192
22,252	Later than 5 years	33,704
87,684	Minimum Lease Payments	121,045

Notes to the Core Financial Statements

The contingent rental figure, recognised as an expense in 2017/18 in respect of the Council's PPP arrangements, was £1.149m (2016/17 £0.94m).

Operating Leases

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

2016/17 £'000		2017/18 £'000
89	Not later than 1 year	90
10	Later than 1 year and not later than 5 years	17
99	Total	107

Council as Lessor

Finance Leases

The Council has no finance leases as lessor.

Operating Leases

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

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

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

2016/17 £'000		2017/18 £'000
1,667	Not later than one year	1,442
1,633	Later than one year and not later than five years	1,059
6,561	Later than five years	5,998
9,861	Total	8,499

Notes to the Core Financial Statements

Note 18 Capital Expenditure and Capital Financing

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

2016/17 £'000		2017/18 £'000	
262,930	Opening capital financing requirement		287,145
Capital Investment			
10,005	Consent to Borrow	-	
51,881	Property, plant and equipment	35,862	
10	Intangible assets	2	35,864
Sources of Finance			
(1,273)	Capital Receipts	(386)	
(26,206)	Government grants and other contributions	(23,902)	
-	NHT Repayment of Principal	(2,977)	
(10,202)	Loans fund repayments	(10,578)	(37,843)
287,145	Closing Capital Financing Requirement		285,166

2016/17 £'000		2017/18 £'000	
Explanation of Movements in Year			
	Increase in underlying need to borrow (supported by government financial assistance)		
24,215	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)		(1,979)
24,215	Increase/(Decrease) in capital financing requirement		(1,979)

Note 19 Termination Benefits

During 2017/18 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 5 employees, incurring liabilities of £0.154m - see the Remuneration Report for further detail on the exit packages granted and total cost per band. These packages are attributable to various areas throughout the Council.

Note 20 Defined Benefit Pension Schemes

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

The Council participates in two formal pension schemes:

The Local Government Pension Scheme is a funded defined benefit career average salary pension scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, as amended. The Pension Fund is

Notes to the Core Financial Statements

subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

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

Transactions relating to retirement benefits

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

2016/17 £'000	Comprehensive Income and Expenditure Statement	2017/18 £'000
	<i>Cost of Services</i>	
15,402	Current Service Costs	20,997
326	Past Service Costs, including curtailments	59
	<i>Financing and Investment Income and Expenditure</i>	
5,175	Net Interest Expense	5,929
20,903	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	26,985
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(82,949)	Return on plan assets (excluding the amount included in the net interest expense)	(13,494)
152,499	Actuarial gains and losses arising on changes in financial assumptions	(57,790)
(41)	Other	792
69,509	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(70,492)
	<i>Movement in Reserves Statement</i>	
4,924	Reversal of net charges made for retirement benefits in accordance with the Code	15,538
	Actual amount charged against the General Fund Balance for pensions in the year	
10,278	Employers' contributions payable to the scheme	9,950
1,499	Retirement benefits payable to pensioners	1,497

Notes to the Core Financial Statements

Pension Assets and Liabilities Recognised in the Balance Sheet

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

2016/17 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2017/18 £'000
786,344	Present value of the defined benefit obligation	755,271
(570,319)	Fair value of plan assets	(594,200)
216,025	Sub total	161,071
216,025	Net liability arising from defined benefit obligation	161,071

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

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

2016/17 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2017/18 £'000
486,072	Opening Fair Value of Scheme Assets	570,319
17,563	Interest Income	15,309
	Remeasurement (gains) and losses:-	
82,949	Return on plan assets, excluding the amount included in the net interest expense	13,494
(270)	Other	1,771
11,777	Employer Contributions including unfunded pensions	11,447
3,412	Contributions by Scheme Participants	3,359
(20,242)	Estimated Benefits Paid	(21,499)
(10,942)	Settlement prices received/(paid)	-
570,319	Closing Fair Value of Scheme Assets	594,200

Notes to the Core Financial Statements

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

2016/17 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2017/18 £'000
627,664	Opening Defined Benefit Obligation	786,344
15,402	Current Service Cost	20,997
22,468	Interest Cost	20,988
3,412	Contributions by Scheme Participants	3,359
	Remeasurement (gains) and losses:-	
152,499	Actuarial (gains)/losses arising from changes in financial assumptions	(57,790)
(41)	Other	2,813
(15,144)	Liabilities assumed/(extinguished) on settlements	-
326	Past Service Cost	59
(18,743)	Benefits Paid	(20,002)
(1,499)	Unfunded Pension Payments	(1,497)
786,344	Closing Defined Benefit Obligation	755,271

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2018.

Notes to the Core Financial Statements

Local Government Pension Scheme assets comprised:-

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

2016/17 £'000	Local Government Pension Scheme assets comprised:	2017/18 £'000
1,729	Cash and cash equivalents	666
	Equity Instruments	
	<i>By industry type</i>	
55,099	Consumer	47,799
52,346	Manufacturing	42,116
6,783	Energy and utilities	5,568
63,729	Financial Institutions	56,063
16,649	Health and Care	17,804
38,579	Information Technology	38,838
233,185		208,188
	Bonds	
	<i>By sector</i>	
46,568	UK Corporate	64,095
9,002	UK Government	26,278
55,570	Other	90,373
	Investment Funds - Quoted in Active Market	
68,304	Managed Fund - UK Equities Passive	56,054
93,975	Managed Fund - Global Equities	78,432
1,658	Managed Fund - Smaller Companies	2,730
29,258	Managed Fund - Property	83,833
193,195		221,049
	Investment Funds - Not Quoted	
86,640		73,924
570,319	Total Assets	594,200

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

2015/16 £'000	Fair Value of Scheme Assets	2016/17 £'000
	Equity instruments:	
	<i>By company size</i>	
233,185	Large capitalisation	208,188

Notes to the Core Financial Statements

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2017.

The principal assumptions used by the actuary are shown below:

2016/17	Basis for Estimating Assets and Liabilities	2017/18
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
22.90	Men	21.60
23.80	Women	24.20
	- longevity at 65 for future pensioners (years)	
25.20	Men	23.30
26.10	Women	26.00
3.6%	Rate of inflation - RPI	3.3%
2.7%	Rate of inflation - CPI	2.3%
1.0%	Rate of increase in salaries	3.3%
2.7%	Rate of increase in pensions	2.3%
2.7%	Rate for discounting scheme liabilities	2.6%

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

2016/17		Category Analysis of the Scheme Assets as at 31 March 2018	2017/18	
%	£'000		%	£'000
70	397,122	Equities	58	345,404
2	9,002	Gilts	15	90,373
8	46,568	Other Bonds	-	-
5	29,258	Property	14	83,833
-	1,729	Cash	-	666
15	86,640	Multi-Asset Fund	7	43,036
-	-	Private Credit	5	27,583
-	-	Infrastructure	1	3,305
100	570,319	Total	100	594,200

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

Notes to the Core Financial Statements

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption	Decrease in Assumption
	£'000	£'000
Adjustment to discount rate (increase or decrease 0.1%)	740,504	770,347
Adjustment to long term salary increase (increase or decrease 0.1%)	757,572	752,987
Adjustment to pension increases and deferred revaluation (increase or decrease 0.1%)	768,068	742,737
Adjustment to mortality rating assumption (increase or decrease 1year)	783,858	727,759

Note 21 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2017/18 the Council paid £7.398m to teachers' pensions in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (£7.331m and 17.2% in 2016/17). The employer's contribution rate has increased as a result of a revaluation of the Scottish Teacher's pension scheme under the Public Service Pensions Act 2013. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, teachers' pensions use a notional fund as the basis for calculating the employer's contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of these Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement and added years it has awarded outside of the terms of the teachers' Scheme. In 2017/18 these amounted to £0.706m representing 1.64% of pensionable pay (£0.704m and 1.65% in 2016/17).

Note 22 Scottish Borders Council Pension Fund

Scottish Borders Council manages and administers this Fund which provides pensions and other benefits to its employees and a further 17 employers in the Scottish Borders. As at 31 March 2018 there were 10,667 members.

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

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

Note 23 Events After the Balance Sheet Date

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

Notes to the Core Financial Statements

Note 24 Inventories

2016/17 £'000		2017/18 £'000
1,020	Balance outstanding at start of year	906
(114)	Movement during year	(229)
906	Balance outstanding at year-end	677

Note 25 Provisions

Provisions are recognised in the accounts when:

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

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

	Contractual Claims £'000	Equal Pay £'000	Voluntary Severance / Early Retirement £'000	Asset Decommissioning £'000	Total £'000
Balance at 1 April 2017	(120)	(238)	(407)	(4,011)	(4,776)
Additional charges to provisions	(27)	-		(14)	(168)
Payments made or released	98	-	339	228	665
Balance at 31 March 2018	(49)	(238)	(68)	(3,924)	(4,279)
Within 12 Months	(49)	(238)	(68)	(157)	(512)
Over 12 months	-	-	-	(3,767)	(3,767)
Total	(49)	(238)	(68)	(3,924)	(4,279)

Provision for contractual claims is the anticipated cost for remedial works relating to SBc Contracts.

Equal Pay Provision - Employment Tribunal proceedings have been raised against the Council by a number of staff relating to Equal Pay.

The Voluntary Severance/Early Retirement Provision has been created to meet the costs associated with employee voluntary severance and early retirement.

Provision for asset decommissioning reflect the Council's liability for restoration and ongoing maintenance in respect of the Langlee landfill site. This has been provided for based on the net present value of estimated future costs.

Notes to the Core Financial Statements

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- The Council is a scheme creditor of Municipal Mutual Insurance Limited (MMI). This organisation ceased operations in 1992 and has outstanding claim liabilities that are currently being managed by a board until the liabilities are extinguished. This will remain the position until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required. As the final costs and timing of any further Council contributions cannot therefore be estimated with reasonable accuracy, no further provision has been made in the financial statements in respect of any potential additional payments at this stage. The remaining contingent liability at the Balance Sheet date in respect of claim payments to date, net of the initial levy paid, is £320,644, though MMI have stated that the first £50,000 of this will be free of any levy. The estimate of outstanding claims relating to the Council that have not yet been paid is £0 at the Balance Sheet date.
- There has been a European Court of Justice ruling relating to workers annual leave payment entitlement. The financial implications of this judgement for Scottish Borders Council are unclear at present and therefore this has been included as a contingent liability in this years` annual accounts.
- The Council has a commitment to provide Bridge Homes LLP with a loan facility up to a maximum value of £18.8m in order to allow Bridge Homes LLP to deliver affordable housing in the Scottish Borders in line with the Council's Local Housing Strategy.
- The Council has agreed to act as guarantor for SB Cares and Live Borders with regards to their admission to the Scottish Borders Pension Fund. Should either SB Cares or Live Borders be unable to meet their pension obligations, Scottish Borders Council as guarantor would be liable to do so. Our Actuary, Barnett Waddingham, has provided figures based on the projected bond level that would be needed to be established to reflect these pension fund liabilities. For those employees that transferred over to SB Cares the pension liability has been calculated at £6.167m and for Live Borders £2.937m.

Note 27 Contingent Assets

The following Contingent Assets are noted:

- During 2016/17 a claim was lodged against Capita Plc by Dumfries and Galloway Council on behalf of itself and Scottish Borders Council for additional expenditure incurred by both Councils due to the delay in the rollout of broadband network and ICT infrastructure across the Scottish Borders and Dumfries and Galloway. This claim is still on-going.

Notes to the Core Financial Statements

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2017/18.

2016/17 Restated £'000		2017/18 £'000
	Credited to Taxation and Non Specific Grant Income	
(11,438)	General Capital Grant	(15,363)
(11,880)	Other Grants	(5,557)
(391)	Developer Contributions	(1,403)
(23,709)	Total	(22,323)
	Credited to Services	
(40)	Culture & Sport	(424)
(36)	Asset & Infrastructure	(227)
(1,518)	Economic Development & Corporate Services	(982)
(1,843)	Health & Social Care	(2,264)
(292)	Children & Young People	(1,553)
(31,634)	Customer & Communities	(28,733)
-	Human Resources	(105)
(37)	Regulatory Services	(1,160)
(35,400)		(35,448)

Note 29 Financial Instruments

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

Fair Value Hierarchy:

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

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

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

Level 3 – unobservable inputs for the asset or liability.

Notes to the Core Financial Statements

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

	31st March 2018			
	Quoted Prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial Liabilities held at amortised cost:				
PWLB debt	-	(281,384)	-	(281,384)
Market Debt	-	(574)	-	(574)
Other debt	-	(86,379)	-	(86,379)
Total	-	(368,337)	-	(368,337)

	31st March 2017			
	Quoted Prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial Liabilities held at amortised cost:				
PWLB debt	-	(273,197)	-	(273,197)
Market Debt	-	(341)	-	(341)
Other debt	-	(90,038)	-	(90,038)
Total	-	(363,576)	-	(363,576)

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

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

Notes to the Core Financial Statements

Financial Instruments - Balances

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

	Long-Term		Current	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£'000	£'000	Restated £'000	£'000
Loans and Receivables				
Short Term Investments	-	-	-	-
Cash and Cash Equivalents	-	-	7,904	10,825
Debtors	8,467	5,770	36,470	41,384
Total Loans and Receivables	8,467	5,770	44,374	52,209
Borrowings				
Financial Liabilities (principal amount)	(184,215)	(194,433)	(9,000)	(5,000)
Accrued interest	-	-	(3,300)	(3,288)
Total Borrowings	(184,215)	(194,433)	(12,300)	(8,288)
Other Liabilities				
PPP and finance lease liabilities	(51,252)	(70,323)	(1,692)	(3,060)
Bonds	-	-	(1,460)	(1,460)
Total other long-term liabilities	(51,252)	(70,323)	(3,152)	(4,520)
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(50,003)	(45,609)
Total Creditors	-	-	(50,003)	(45,609)

Borrowing is taken principally from the Public Works Loans Board (PWLB), but is also taken from the money market, to meet the Council's overall capital financing requirements.

The following table shows a breakdown of borrowing:

31 March 2017			31 March 2018	
£'000	%		£'000	%
(44,584)	23	Bonds and Mortgages	(44,801)	22
(139,631)	71	Public Works Loan Board	(149,632)	74
(184,215)	94	Long term borrowing (> 1 year)	(194,433)	96
(12,300)	6	Short Term Borrowing repayable within 12 months	(8,288)	4
(196,515)	100	Total Borrowing	(202,721)	100

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2017 £'000		2018 £'000
(12,300)	Less than 1 year	(8,288)
(94)	Between 1 and 2 years	-
(14,584)	Between 2 and 7 years	(14,977)
(15,582)	Between 7 and 15 years	(25,500)
(153,955)	More than 15 years	(153,956)
(196,515)	Total	(202,721)

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

	2017/18		
	Financial Liabilities	Financial Assets	Total
	Liabilities measured at amortised cost	Loans and receivables	
	£'000	£'000	£'000
Interest expense	11,681	-	11,681
Interest payable and similar charges	11,681	-	11,681
Interest Income	-	(5)	(5)
Interest and investment income	-	(5)	(5)
Net (gain) / loss for the year	11,681	(5)	11,676

	2016/17		
	Financial Liabilities	Financial Assets	Total
	Liabilities measured at amortised cost	Loans and receivables	
	£'000	£'000	£'000
Interest expense	11,879	-	11,879
Interest payable and similar charges	11,879	-	11,879
Interest Income	-	(55)	(55)
Interest and investment income	-	(55)	(55)
Net (gain) / loss for the year	11,879	(55)	11,824

Notes to the Core Financial Statements

Fair value of Assets and Liabilities carried at Amortised Cost

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

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

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	(142,405)	(273,197)	(149,632)	(281,384)
Other debt	(54,110)	(90,379)	(53,089)	(86,953)
Total debt	(196,515)	(363,576)	(202,721)	(368,337)
Creditors	(53,155)	(53,155)	(50,129)	(50,129)
Total financial liabilities	(249,670)	(416,731)	(252,850)	(418,466)

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

	31 March 2017		31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables				
Short Term Investments	-	-	-	-
Cash and Cash Equivalents	7,904	7,904	10,825	10,825
Debtors	36,470	36,470	41,384	41,384
Total loans and receivables	44,374	44,374	52,209	52,209

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

Note 30 Nature and Extent of Risks Arising from Financial Instruments

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

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

Notes to the Core Financial Statements

Overall Procedures for Managing Risk

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

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

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

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

The annual Treasury Management Strategy for 2017/18 which incorporates the prudential indicators was approved by the Council on 9 February 2017. The key issues within the strategy were:

- The Authorised Limit for 2017/18 was set at £343.6m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £285.0m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £285.0m and £99.8m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

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

Notes to the Core Financial Statements

Credit Risk

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

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

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

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

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

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

The full Investment Strategy for 2017/18 was approved by the Council on 9 February 2017 and is available on the Council's website: <http://www.scotborders.gov.uk/>

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses for non-performance by any of its counterparties in relation to its deposits.

Liquidity Risk

Liquidity risk is the risk that the Council may not have sufficient cash available to meet its day to day obligation to make payments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures that sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

Notes to the Core Financial Statements

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt, and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, together with the maximum and minimum limits for fixed interest rates maturing in each period, as approved by the Council in the Treasury Management Strategy on 9 February 2017:

	Approved Minimum Limits £'000	Approved Minimum Limits %	Approved Maximum Limits £'000	Approved Maximum Limits %	Actual 31 March 2017 £'000	Actual 31 March 2018 £'000
Less than one year			63,650	20	12,300	8,288
Between one and two years			63,650	20	94	-
Between two and seven years			63,650	20	14,584	14,977
Between seven and fifteen years			63,650	20	15,582	25,500
More than fifteen years	50,220	20	254,600	80	153,955	153,956
Total					196,515	202,721

Market Risk

There are three main market risks to which the Council is exposed:

(i) **Interest Rate Risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise, and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

Notes to the Core Financial Statements

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

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

	£'000
Increase in interest receivable on variable rate investment	(119)
Decrease in fair value of fixed rate borrowing liabilities (No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	65,429

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

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

Notes to the Core Financial Statements

Debtor and Creditor Analysis

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

Debtors

Restated 2016/17 £'000		2017/18 £'000
	Prepayments	
411	Central government bodies	-
-	- Other local authorities	-
-	- NHS bodies	-
-	- Public Corporations and Trading Funds	-
4,861	Bodies External to General Government	3,065
	General Sundry Debtors	
35	Central government bodies	12,130
136	Other local authorities	211
3,671	NHS bodies	64
184	Public Corporations and Trading Funds	161
7,287	Bodies External to General Government	1,573
	Other Debit Balances	
3,174	Central government bodies	3,583
-	- Other local authorities	426
-	- NHS bodies	4,066
988	Public Corporations and Trading Funds	65
25,873	Bodies External to General Government	26,863
46,620		52,207

Creditors

Restated 2016/17 £'000		2017/18 £'000
	Income Received in Advance	
(553)	Central government bodies	(21)
-	- Other local authorities	-
-	- NHS Bodies	(87)
-	- Public Corporations and Trading Funds	(6)
(6,761)	Bodies External to General Government	(5,911)
	General Sundry Creditors	
-	- Central government bodies	(407)
-	- Other local authorities	(291)
(2)	NHS Bodies	(295)
(1,014)	Public Corporations and Trading Funds	(996)
(35,164)	Bodies External to General Government	(15,441)
	Other Credit Balances	
(2,763)	Central government bodies	(3,317)
-	- Other local authorities	(69)
-	- NHS Bodies	(69)
(857)	Public Corporations and Trading Funds	(1,845)
(6,041)	Bodies External to General Government	(21,184)
(53,155)		(50,129)

Notes to the Core Financial Statements

Note 31 Movement in Reserves

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Balance as at 31 March 2017	Transfers between reserves and funds	Gains or Losses for the Year	Balance as at 31 March 2018
	£'000	£'000	£'000	£'000
Usable Reserves				
General Fund Balances	(18,294)	(30,513)	29,081	(19,726)
Capital Fund	(6,521)	(1,060)	-	(7,580)
Property Maintenance Fund	-	(426)	-	(426)
Insurance Fund	(1,125)	62	-	(1,063)
Unusable Reserves				
Capital Adjustment Account	(127,102)	12,337	2,918	(111,848)
Financial Instruments Adjustment Account	4,980	(208)	1	4,773
Revaluation Reserve	(72,079)	4,844	(55,093)	(122,328)
Pensions Reserve	216,025	15,538	(70,492)	161,071
Employee Statutory Adjustment Account	6,352	(574)	-	5,778
Total	2,236	-	(93,585)	(91,349)

Notes to the Core Financial Statements

Adjustments Between Accounting Basis And Capital Funding Basis Under Regulations

This details the adjustments that are made to the Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

A summary of all reserves movements are shown below:

Adjustments between accounting basis & funding basis under regulations 2016/17

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Charges for depreciation & amortisation of non-current assets	(21,971)	-	-	-	(21,971)	21,971	-	12 & 14
Impairment losses (charged to CI&ES)	(1,199)	-	-	-	(1,199)	1,199	-	
Revaluation Losses	(463)	-	-	-	(463)	463	-	
Capital grants and contributions applied	23,709	-	-	-	23,709	(23,709)	-	28
Employee Statutory Adjustments	(170)	-	-	-	(170)	170	-	
Profit/(Loss) on disposal of assets	(17)	(1,582)	-	-	(1,599)	1,599	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	(7,748)	-	-	-	(7,748)	7,748	-	
Net retirement charges per IAS 19	207	-	-	-	207	(207)	-	
Loans Fund principal repayments and Statutory premia	(15,202)	-	-	-	(15,202)	15,202	-	
Capital Expenditure charged to General Fund balance	10,203	-	-	-	10,203	(10,203)	-	
Employers contribution payable to Pension Fund	146	-	-	-	146	(146)	-	
Net Transfers to or (from) other reserves	10,278	-	-	-	10,278	(10,278)	-	
Net Transfers to or (from) other reserves	1,753	1,640	102	196	3,690	(3,690)	-	
Total in year adjustments	(475)	57	102	196	(119)	119	-	

Notes to the Core Financial Statements

Adjustments between accounting basis & funding basis under regulations 2017/18

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Charges for depreciation & amortisation of non-current assets	(26,012)				(26,012)	26,012	-	12 & 14
Impairment Losses (charged to CI&ES)	(2,805)				(2,805)	2,805	-	
Revaluation Losses	(22,921)				(22,921)	22,921	-	
Capital grants and contributions applied	22,323				22,323	(22,323)	-	28
Employee Statutory Adjustments	574				574	(574)	-	
Profit/(Loss) on disposal of assets	143	(434)			(291)	291	-	
Revenue Exp Funded From Capital under Statute	(18)				(18)	18	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	208				208	(208)	-	
Net retirement charges per IAS 19	(25,488)				(25,488)	25,488	-	
Loans Fund principal repayments and Statutory premia	10,578				10,578	(10,578)	-	
Capital Expenditure charged to General Fund balance	458				458	(458)	-	
Employers contribution payable to Pension Fund	9,950				9,950	(9,950)	-	
Net Transfers to or (from) other reserves	2,496	(625)	(426)	62	1,506	(1,506)	-	
Total in year adjustments	(30,513)	(1,059)	(426)	62	(31,936)	31,936	-	

Notes to the Core Financial Statements

Usable Reserves

Usable reserves are those that can be applied to fund expenditure or reduce the requirement to raise local taxation.

The General Fund Balances are further analysed as follows:

2016/17 Restated £'000	Analysis as at 31 March	2017/18 £'000
	Earmarked Reserves	
(1,690)	Children & Young People - Devolved School Management	(2,442)
	Specific Departmental Reserves	
-	- Culture & Sport	(71)
(247)	Asset & Infrastructure	(499)
(61)	Economic Development & Corporate Services	(313)
(504)	Children & Young People	-
(713)	Customer & Communities	(520)
(485)	Finance, IT & Procurement	(11)
-	- Human Resources	(13)
(49)	Regulatory Services	-
(534)	Revenue Support Grant / Council Tax	(864)
(2,272)	2nd Homes Council Tax	(3,266)
-	- Allocated Reserves - Financial Plan 18/19	(5,058)
(6,555)		(13,057)
(11,739)	Non-Earmarked Reserve	(6,669)
(18,294)	Total General Fund Reserve	(19,726)

Unusable Reserves

Unusable reserves are those that the Council is not able to use to provide services

Capital Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Revaluation Reserve

The Revaluation Reserve contains the gains made by an Authority arising from increases in the value of its Property Plant and Equipment. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account

Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

Employee Statutory Adjustment Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Notes to the Core Financial Statements

Note 32 Cash Flow

2016/17		2017/18
£'000	Reconciliation to General Fund Surplus	£'000
5,343	Net (Surplus) or deficit on the provision of services	29,081
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(21,783)	Depreciation	(25,942)
(1,662)	Impairment & Revaluation Loss through I & E	(25,726)
(188)	Amortisation of intangible assets	(70)
(4,924)	Movement in pension liability	(15,538)
(17)	Gain/Loss on carrying amounts of assets disposed	143
(114)	Net movement in inventories charged to I & E	(229)
(152)	Net movement in debtors charged to I & E	3,835
4,827	Net movement in creditors charged to I & E	(9,183)
648	Net movement in provisions charged to I & E	(410)
(23,364)		(73,120)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
23,709	Capital grants received	22,323
181	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(125)
23,890		22,198
5,869	Net Cash Outflow / (Inflow) from Operating Activities	(21,841)

Note 33

Impairment & Revaluation Losses

During 2017/18 SBC recognised a net impairment and negative revaluation loss of £32.410m (£3.184m in 2016/17). A net cost of £25.726m has been charged to the Comprehensive Income and Expenditure Statement and shown within the Net Cost of Services.

Note 34

Cash and Cash Equivalents

The balance of the cash and cash equivalents is made up of the following elements:

2016/17		2017/18
£'000		£'000
52	Cash held by officers	49
5,772	Bank current accounts	7,996
2,080	Short term deposits	2,780
7,904	Total	10,825

Supplementary Financial Statements

Council Tax Income Account

Restated			2017/18	
2016/17			2017/18	
£'000	£'000		£'000	£'000
	(60,290)	Gross Charges Levied		(65,657)
4,928		Less: Council Tax Reduction Scheme	5,086	
4,928			5,086	
6,865		Discounts and Exemptions	7,173	
645		Provision for bad debts	706	
10		Miscellaneous	(20)	
	12,448			12,945
	(47,842)			(52,712)
	(47,842)	Total Income Credited to the Comprehensive Income & Expenditure Statement		(52,712)

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2017

Band	Number of Properties 2016/17	Number of Properties 2017/18	Proportion	2016/17 £	2017/18 £
A	16,568	16,573	6/9	722.67	744.35
B	12,743	12,676	7/9	843.11	868.40
C	7,000	7,026	8/9	963.56	992.46
D	5,891	5,912	9/9	1084.00	1,116.52
E	6,364	6,396	11/9	1,324.89	1,466.98
F	4,723	4,783	13/9	1,565.78	1,814.35
G	4,366	4,426	15/9	1,806.67	2,186.52
H	455	464	18/9	2,168.00	2,735.47
Total	58,110	58,256			

Note 2 Water and Waste Water Charges

The Council is required to bill and collect water and waste water charges on domestic properties along with Council Tax as part of an agency agreement. These charges were determined by Scottish Water and for 2017/18 the Band D charges were £199.26 for water and £231.30 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

2016/17			2017/18	
£'000	£'000		£'000	£'000
	(45,308)	Gross Rates Levied & Contribution in Lieu		(48,016)
12,030		Less: Reliefs and Other Deductions	15,436	
399		Write-offs of uncollectable debts & allowance for impairment	394	
-		Interest paid on overpaid rates	-	
	12,429			15,830
	(45,308)			(48,016)
	(155)	Net General Fund expenditure on discretionary reliefs		(173)
	(45,463)	Net Non-Domestic Rate Income		(48,189)
	-	Adjustment to Previous Years National Non-Domestic Rates		-
	(45,463)	Contribution to National Pool		(48,189)
	33,594	Distribution received from National Pool		32,673
	(33,594)	Income Credited to the Comprehensive Income & Expenditure Statement		(32,673)

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2018

Classification	Number	Rateable Value £'000
Shops	1,251	20,637
Public Houses	83	1,508
Offices Including Banks	949	8,281
Hotels Etc	135	4,077
Industrial Subjects Including Factories Warehouses and Stores	2,003	27,394
Leisure, Entertainment Caravans and Holiday Sites	1,044	6,093
Garages and Petrol Stations	214	2,295
Cultural	50	542
Sporting Subjects	1,129	2,188
Education and Training	105	10,854
Public Service Subjects	431	5,717
Communications (Non Formula)	5	16
Quarries Mines Etc	12	414
Petrochemical	5	1,307
Religious	290	1,267
Health Medical	97	4,157
Other	549	2,129
Care Facilities	88	2,003
Advertising	7	13
Undertaking	28	5,254
Total	8,475	106,146

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2017/18 was:

46.6p for properties with a rateable value up to £51,000

A 2.6p supplement is charged for properties with a rateable value of over £51,000

Trust Funds

Scottish Borders Council administers numerous charitable trusts and bequests. Elected members of the Council act as Trustees of these charities. Those registered with the Office of the Scottish Charity Regulator (OSCR) are detailed below:

- **Scottish Borders Council Education Trust**
- **Scottish Borders Council Community Enhancement Trust**
- **Scottish Borders Council Welfare Trust**

These three charities were registered with OSCR on April 1 2014 and each contains funds that are restricted by purpose and geographical area.

- **The Scottish Borders Council Charitable Trust** contains 76 separate trusts and bequests as at the Balance Sheet date. However, OSCR approval has been granted to move 6 of these trusts into the SBC Community Enhancement Trust and 38 into the SBC Welfare Trust with effect from 1 April 2018.
- **The Ormiston Trust for Institute** remains as a separately registered trust with OSCR.
- **The Thomas Howden Wildlife Award Fund** was amalgamated into the SBC Education Trust with effect from 1 April 2017 with OSCR approval.

All OSCR registered charities are subject to audit, in line with OSCR requirements and a full set of financial statements compliant with those requirements are published separately. The Council also administers a further 177 non registered charities, which will be consolidated (with OSCR approval) into the SBC Community Enhancement and Welfare Trusts from 1 April 2018.

On 21st December 2017 Scottish Borders Council, following public consultation, approved the amalgamation of a number of Funds held under Other into the Scottish Borders Council Welfare Trust and the Scottish Borders Community Enhancement Trust. The amalgamation was agreed to take place from 1st April 2018 and will result in £316k transferring from Other to Charitable.

Trust Funds

A summary Income and Expenditure Statement and Balance Sheet are detailed below, recognising all registered and unregistered charities administered by the Council.

Comprehensive Income & Expenditure Statements

2016/17		Charitable	Other	2017/18
£'000		£'000	£'000	Total £'000
	Income			
(68)	Dividends and Interest	(41)	(32)	(73)
(42)	Rents	-	(75)	(75)
(10)	Donations & Grants	(3)	(10)	(13)
-	Recognition of Fixed Assets & Investments	(4)	-	(4)
	Expenditure			
-	Administration	5	4	9
201	Grants to Beneficiaries	20	25	45
97	Depreciation	26	72	98
-	Realised Loss On Investments	27	40	67
9	Unrealised Loss On Investments	2	2	4
187	(Surplus) / Deficit for the Year	32	26	58
(820)	(Surplus) brought forward	(360)	(508)	(868)
	Funding (brought forward/carried forward) to Revaluation Reserve			
(97)		(26)	(72)	(98)
(125)	Transfer to Capital Reserve	(28)	(41)	(69)
(13)	Movement between Revenue & Capital Reserves			-
(868)	(Surplus) carry forward	(382)	(595)	(977)

Balance Sheet

2016/17		Charitable	Other	2017/18
£'000		£'000	£'000	Total £'000
	Non-current Assets			
1,788	Land and Buildings	260	1,431	1,691
1,873	Investments	710	1,075	1,785
1	Long term Loan	-	1	1
	Current Assets			
344	Short Term Investments	103	334	437
-	Sundry Debtors	3	22	25
	Current Liabilities			
(16)	Sundry Creditors	(5)	(1)	(6)
3,990	Net Assets	1,071	2,862	3,933
	Financed by			
(868)	Revenue Reserve	(382)	(595)	(977)
(1,402)	Capital Reserve	(481)	(853)	(1,334)
(1,720)	Revaluation Reserve	(208)	(1,414)	(1,622)
(3,990)		(1,071)	(2,862)	(3,933)

Common Good Funds

The Council administers the Common Good Funds for ten towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2018, for each of the funds. The accounting policies applied are those as set out in pages 52 to 63.

With effect from 12 February 2018, per the Councils' Common Good and Trust Investment Strategy, all funds are invested in the Kames Capital Plc diversified income fund.

From 1 April 2018 Melrose Common Good has been recognised with the inclusion of the Melrose Scout Hall (old town hall) as a Common Good asset.

The Common Good Financial Statements are presented in line with previous years. A separate set of financial statements is published compliant with OSCR requirements and subject to full external audit.

Comprehensive Income and Expenditure Statements

2016/17 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Melrose £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income											
(238)	Charitable Activities	-	-	(106)	-	-	-	(11)	-	(42)	(57)	(216)
(69)	Investments	(1)	(4)	(13)	-	(26)	(7)	(7)	-	(12)	(5)	(75)
(27)	Donations & Legacies	(1)	(1)	(7)	-	(1)	(1)	(7)	(38)	(3)	(18)	(77)
(334)		(2)	(5)	(126)	-	(27)	(8)	(25)	(38)	(57)	(80)	(368)
	Expenditure											
385	Raising Funds	-	42	169	17	45	53	26	3	72	77	504
48	Other : Governance Costs	3	2	13	-	7	2	12	-	9	12	60
171	Charitable Activities	-	-	17	-	13	2	6	-	19	28	85
604		3	44	199	17	65	57	44	3	100	117	649
270	(Surplus) / Deficit before unrealised losses	1	39	73	17	38	49	19	(35)	43	37	281

Common Good Funds

Balance Sheet

Total 2016/17 £'000		2017/18										
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Melrose £'000	Peebles £'000	Selkirk £'000	Total £'000
	Non-current Assets											
10,746	Tangible Assets	-	552	3,558	273	452	756	995	35	803	3,114	10,538
2,700	Investments	17	148	455	-	900	243	247	-	418	231	2,659
47	Long Term Loan to Third Party	-	-	-	-	30	-	5	-	-	-	35
	Current Assets											
20	Sundry Debtors	-	-	19	-	14	1	8	-	5	7	54
255	Short Term Investments	-	13	31	-	14	40	29	-	48	84	259
	Current Liabilities											
(23)	Sundry Creditors	-	-	(36)	-	-	-	(4)	-	(7)	(42)	(89)
13,745	Net Assets	17	713	4,027	273	1,410	1,040	1,280	35	1,267	3,394	13,456
	Financed by											
(3,478)	Restricted Income Funds	(17)	(314)	(607)	(135)	(959)	(284)	(288)	(35)	(513)	(312)	(3,464)
(10,267)	Revaluation Reserve	-	(399)	(3,420)	(138)	(451)	(756)	(992)	-	(754)	(3,082)	(9,992)
(13,745)	Total Reserves	(17)	(713)	(4,027)	(273)	(1,410)	(1,040)	(1,280)	(35)	(1,267)	(3,394)	(13,456)

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code) and relevant accounting standards require local authorities to consider all their interests in other organisations and to prepare a full set of group financial statements where they have material interests in subsidiary and associated entities and joint arrangements. The Local Authority group is defined as the Local Authority and its interests in entities which would be regarded as its subsidiaries or associates or joint arrangements were it subject to the Companies Act. The Code requires that group financial statements include the following statements along with the appropriate notes:

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

The Group Accounts and Notes are set out on pages 111 to 119.

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

Subsidiaries

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

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

The Council is the sole trustee of the Common Good Funds and the Charitable Trust Funds and summary financial results for these entities appear on pages 107 to 110. Bridge Homes LLP, a partnership between the Council and Scottish Futures Trust Investments Ltd, created to invest in residential property and in which the Council is entitled to 99.999% of the profits and equally exposed to 99.999% of the losses, is also treated as a subsidiary body. SB Supports and SB Cares LLP are registered Limited Liability Partnerships between Scottish Borders Council and SBC Nominees, working in partnership to provide adult social care services. The financial statements for Bridge Homes LLP, SB Supports LLP and SB Cares LLP are available from Council Headquarters.

Live Borders, an integrated trust providing culture and leisure services on behalf of Scottish Borders Council was established on 1st April 2016. Services provided by the trust include Arts, Libraries, Archives, Museums, and Galleries, Sport and Leisure facilities.

Live Borders accounts can be obtained from their Headquarters at Melrose Road, Galashiels, TD1 2DU.

Group Accounts

Associates

Associate entities are those over which the Council has been deemed to exercise significant influence. The following body has been recognised as an associate of Scottish Borders Council:

- Jedburgh Leisure Facilities Trust

This organisation manages the delivery of a range of sport and leisure facilities in Jedburgh. The Council pays a management fee to the company and the leisure facilities are owned by the Council and leased to the company. The company is limited by guarantee and has charitable status. The Council is not represented on the Board of Directors. The percentage for consolidation is 39.5% based on the Council's contribution to incoming resources. Jedburgh Leisure Facilities Trust's accounting period is to 31 March and, for the purposes of consolidation, the financial statements for the period ending 31 March 2018 have been used. The company's Statement of Financial Activities shows an operating profit of £0.007m for the year to 31 March 2018 of which £0.002m has been included in the Group Accounts. The company's draft Balance Sheet as at 31 March 2018 shows net assets of £0.024m of which £0.008m has been included in the Group Accounts.

The Trust's accounts can be obtained from their registered office at Oxnam Road, Jedburgh, TD8 6QH.

Joint Arrangements

Joint arrangements can be either joint operations or joint ventures. Joint operations are joint arrangements where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The following body has been recognised as a Joint Venture.

- Scottish Borders Integration Joint Board

The Council commenced a joint arrangement with NHS Borders to establish The Scottish Borders Health and Social Care Integration Board on 6th February 2016. This is a partnership set up to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016.

The boards draft Comprehensive Income & Expenditure Statement show gross expenditure and income of £175.290m for the year of which £35.755m has been consolidated into the Group Accounts. Both the Balance Sheet and Movement In Reserves Statement show a net position of £0 for 2017/18.

The financial statements for the Scottish Borders Integration Joint Board are available from the Council Headquarters.

Restatement of Prior Year's Core Statements

It should be noted that various 2016/17 core group statements have been restated. This is to reflect any changes from the draft annual accounts position of group entities to their finalised audited position. It also allows for any increases or decreases to the Council's share in group entities between the financial years.

Group Movement In Reserves Statement

Movement in reserves during 2016/17 - Restated

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/2016	(31,164)	(7,547)	(38,711)	(35,697)	(11,800)	(47,497)	(86,208)

Movement in reserves during 2016/17

Total Comprehensive Income & Expenditure	5,343	(274)	5,069	63,754	5,796	69,550	74,619
Adjustments between accounting basis & funding basis under regulations	(119)	(367)	(486)	119	367	486	-
Increase or Decrease in 2016/17	5,224	(641)	4,583	63,873	6,163	70,036	74,619
Balance at 31/03/2017 carried forward	(25,940)	(8,188)	(34,128)	28,176	(5,637)	22,539	(11,589)

Movement in reserves during 2017/18

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/2017	(25,940)	(8,188)	(34,128)	28,176	(5,637)	22,539	(11,589)

Movement in reserves during 2017/18

Total Comprehensive Income & Expenditure	29,081	128	29,209	(122,666)	1,005	(121,661)	(92,452)
Adjustments between accounting basis & funding basis under regulations	(31,936)	(365)	(32,301)	31,936	365	32,301	-
Increase or Decrease in 2017/18	(2,855)	(237)	(3,092)	(90,730)	1,370	(89,360)	(92,452)
Balance at 31/03/2018 carried forward	(28,795)	(8,425)	(37,220)	(62,554)	(4,267)	(66,821)	(104,041)

Group Comprehensive Income and Expenditure Statement

Restated 2016/17				2017/18		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
14,654	(5,563)	9,091	Culture & Sport	15,661	(4,977)	10,685
55,246	(13,536)	41,710	Asset & Infrastructure	56,682	(14,763)	41,918
2,772	(1,906)	866	Economic Development & Corporate Services	2,369	(1,102)	1,267
113,763	(62,856)	50,907	Health & Social Care	123,094	(69,791)	53,302
119,935	(2,559)	117,375	Children & Young People	140,659	(4,837)	135,822
45,484	(33,366)	12,118	Customer & Communities	45,861	(29,964)	15,898
20,354	(149)	20,205	Finance, IT & Procurement	16,235	(215)	16,020
2,114	-	2,114	Human Resources	6,091	(404)	5,687
13,069	(5,686)	7,382	Regulatory Services	13,408	(5,535)	7,873
4,143	-	4,143	Non-Distributed Costs	4,118	-	4,118
604	(265)	339	Common Good	646	(242)	404
307	(52)	255	Trust Funds	152	(88)	64
31,546	(31,551)	(5)	Share of Operating Results of Associates & Joint Ventures	35,827	(35,829)	(2)
423,992	(157,490)	266,501	Services provided by the Council	460,803	(167,746)	293,056
423,992	(157,490)	266,501	Net Cost of Services	460,803	(167,746)	293,056
10,939	(11,030)	(91)	Roads Trading Operation (Surplus)/Deficit (External)	8,027	(7,936)	91
1,598	(1,581)	17	Other Operating Expenditure (Gain)/Loss on Disposal of Assets	291	(434)	(143)
11,879	-	11,879	Financing & Investment Income and Expenditure Interest Payable & Similar Charges	11,681	-	11,681
-	(119)	(119)	Interest Receivable & Similar Income	-	(68)	(68)
22,468	(17,293)	5,175	Net Interest Expense on the Net Defined Benefit Liability	20,988	(15,059)	5,929
-	-	-	Share Of Associates & Joint Ventures Interest Payable	-	-	-
-	(170,200)	(170,200)	Taxation and Non-Specific Grant Income Revenue Support Grant	-	(170,707)	(170,707)
-	(33,594)	(33,594)	Non-Domestic Rates Pool for Scotland	-	(32,673)	(32,673)
10,162	(58,004)	(47,842)	Council Tax	12,945	(65,657)	(52,712)
-	(23,709)	(23,709)	Capital Grants and Contributions	-	(22,323)	(22,323)
		8,017	(Surplus)/Deficit on Provision of Services			32,131

Group Comprehensive Income and Expenditure Statement

2016/17				2017/18		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		8,017	(Surplus)/Deficit on Provision of Services			32,131
		(5,807)	(Surplus)/Deficit on revaluation of Non Current Assets			(53,920)
		(1,179)	Any Other (Gains) Or Losses			1,456
		73,588	Actuarial (gains)/losses on pension assets/liabilities			(72,119)
		66,602	Other Comprehensive Income and Expenditure			(124,583)
		74,619	Total Comprehensive (Income)/Expenditure			(92,452)

Group Balance Sheet

Restated 2016/17 £'000		2017/18 £'000
325,082	Property Plant and Equipment	398,999
18,199	Other Land and Buildings	17,305
123,534	Vehicle, Plant, Furniture & Equipment	125,999
3,838	Infrastructure	4,742
27,259	Surplus Assets	9,807
1,062	Assets Under Construction	1,062
52	Heritage Assets	6
4,574	Intangible Assets	4,444
194	Long Term Investments	436
3,914	Investments in Associates & Joint Ventures	1,205
	Long Term Debtors	
507,708	Long Term Assets	564,006
411	Intangible Assets - Current	201
-	Short Term Investments	-
1,025	Inventories	825
41,483	Short Term Debtors	43,207
(10,150)	less Bad Debt Provision	(10,823)
13,413	Cash and Cash Equivalents	14,169
46,183	Current Assets	47,578
(12,300)	Short Term Borrowing	(8,288)
(54,567)	Short Term Creditors	(45,533)
(804)	Provisions	(512)
(67,671)	Current Liabilities	(54,332)
(184,392)	Long Term Borrowing	(194,556)
(51,252)	Deferred Liabilities	(70,323)
(188)	Liabilities of Associates & Joint Ventures	(428)
(3,972)	Provisions	(3,767)
(11,852)	Capital Grants Receipts in Advance	(14,804)
(251,656)	Long Term Liabilities	(283,877)
234,564	Net Assets excluding pension liability	273,374
(222,975)	Pension Liability	(169,333)
11,589	Net Assets/(Liabilities) including pension liability	104,041

Group Balance Sheet

2016/17 £'000	Financed By:	2017/18 £'000
	Useable Reserves	
(6,521)	Capital Fund	(7,580)
(18,294)	General Fund Balance	(19,726)
-	Property Maintenance Fund	(426)
(1,125)	Insurance Fund	(1,063)
(8,188)	Share of Group Entities Usable Reserves	(8,425)
	Unusable Reserves	
(127,102)	Capital Adjustment Account	(111,848)
4,980	Financial Instruments Adjustment Account	4,773
(72,079)	Revaluation Reserve	(122,328)
216,025	Pension Reserve	161,071
6,352	Employee Statutory Adjustment Account	5,778
(5,637)	Share of Group Entities Unusable Reserves	(4,267)
(11,589)	Total Reserves	(104,041)

The unaudited accounts were issued on 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Group Cash Flow Statement

Restated		2017/18	
2016/17		£'000	£'000
8,017	Net (Surplus) or deficit on the provision of services	32,131	
5	Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement	2	
(31,020)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(74,703)	
23,890	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	22,135	
892	Net Cash Flows From Operating Activities		(20,435)
	Investing Activities		
48,930	Purchase of PP&E, investment property and intangible assets	47,611	
(1,581)	Proceeds from PP&E, investment property and intangible assets	(434)	
(72)	Purchase/(Disposal) of short & long term investments	139	
(21,416)	Other Items which are Investing Activities	(25,222)	
25,860	Net Cash Flows from Investing Activities		22,094
	Financing Activities		
(21,314)	Cash received from loans & other borrowing	(10,312)	
1,613	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,669	
96	Repayments of short and long term borrowing	4,103	
(2,439)	Other items which are financing activities	125	
(22,044)	Net Cash Flows from Financing Activities		(2,415)
4,708	Net (Increase) or Decrease in Cash and Cash Equivalents		(756)
13,121	Cash and Cash Equivalents at the beginning of the reporting period		13,413
13,413	Cash and Cash Equivalents at the end of the reporting period		14,169
4,708	Movement		(756)

Notes to the Group Accounts

Note 1 Group Accounting Policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 52 to 63.

The Council has accounted for its interest in each subsidiary using the acquisition method of accounting. The Council's interests in associates and joint ventures have been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note 2 Group Cash Flow

A reconciliation between the Group Income and Expenditure Statement and the revenue activities in the Group Cash Flow Statement is provided in the table below:

Restated 2016/17 £'000		2017/18 £'000
	Reconciliation to General Fund Surplus	
8,017	Net (Surplus) or deficit on the provision of services	32,131
5	Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement	2
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(22,467)	Depreciation	(26,746)
(1,634)	Impairment & Revaluation Loss through I & E	(25,740)
(188)	Amortisation of intangible assets	(70)
(7,416)	Movement in pension liability	(18,477)
(17)	Gain/Loss on carrying amounts of assets disposed	143
(40)	Net movement in inventories charged to I & E	(200)
(217)	Net movement in debtors charged to I & E	4,636
310	Net movement in creditors charged to I & E	(7,839)
648	Net movement in provisions charged to I & E	(410)
(31,020)		(74,703)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
23,709	Capital grants received	22,323
181	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(188)
23,890		22,135
892	Net Cash Outflow / (Inflow) from Operating Activities	(20,435)

Note 3 Financial Impact of Group Consolidation

The inclusion of the group entities has an impact on the Council's single entity position on provision of services. The deficit of £29.08m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group deficit of £32.13m. The Group Balance Sheet position has increased from a net asset of £11.6m in 2016/17 to £104.0m in 2017/18.

Glossary of Terms

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Aggregate External Finance (AEF): this is the term given to the total of funding provided by the Scottish Government. It comprises three parts, which are explained below;

- **Revenue Support Grant (RSG):** this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.
- **Non-Domestic Rate Income (NDRI):** local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.
- **Specific Grants:** the final part of AEF. As the name suggests these grants are paid to support specific services/activities and can enable the Scottish Government to more directly influence service provision than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure. Each financial year budget is part of a 5 year Revenue or a 10 year Capital Financial Plan.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are schools, major road works, improving social work and leisure facilities. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and developer contributions. It can be used to fund capital expenditure or make payments of loan principal.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Glossary of Terms

Common Good Funds: have been accumulated by former burghs since their foundation from the 12th Century onwards. They are held by the Council as custodian for the benefit of residents of the 10 former burghs, Duns, Innerleithen, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Melrose, Peebles and Selkirk. They are administered by the Council to have regard to the interest of the inhabitants of the area to which the Common Good formally related. All of the Common Good Funds are presently registered as a single charity with OSCR.

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band D.

Council Tax Reduction Scheme (CTRS): Replaced Council Tax Benefit which stopped on 1 April 2013 as part of the welfare reform programme. CTRS is a reduction on your council tax that you may be entitled to if you are on a low income. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term creditors, short-term borrowing and provisions.

Depreciation: the measure of the value of a fixed asset used during the year.

Fair Value: is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

General Fund: the principal usable reserve of the Council that covers most areas of activity, the main exclusions being SBc Contracts and the Pension Fund.

Group Accounts: statements that reflect the Council's interest in any subsidiaries, associates and joint ventures.

Heritage Assets: assets preserved in trust for future generations because of their cultural, environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: The Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Glossary of Terms

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds. The Local Government (Scotland) Act 1975 has been replaced by The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Ratios: financial analysis tools to support the evaluation of the financial health of the organisation.

Rents, Fees and Charges: add in charges for specific service; examples include home care charges, commercial rents, hall lets and library fines.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Property Maintenance Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account.

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Glossary of Terms

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: The Council administers 273 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 97 of which have charitable status and have been reorganised into 5 charities registered with the Office of the Scottish Charity Regulator (OSCR).

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

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Contact us at Suzy Douglas, Financial Services Manager, Financial Services,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825881 Fax: 01835 825011 or email: sdouglas@scotborders.gov.uk

Scottish Borders Council

Common Good Funds

Charity Registration Number: SC031538

annual report and financial statements

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

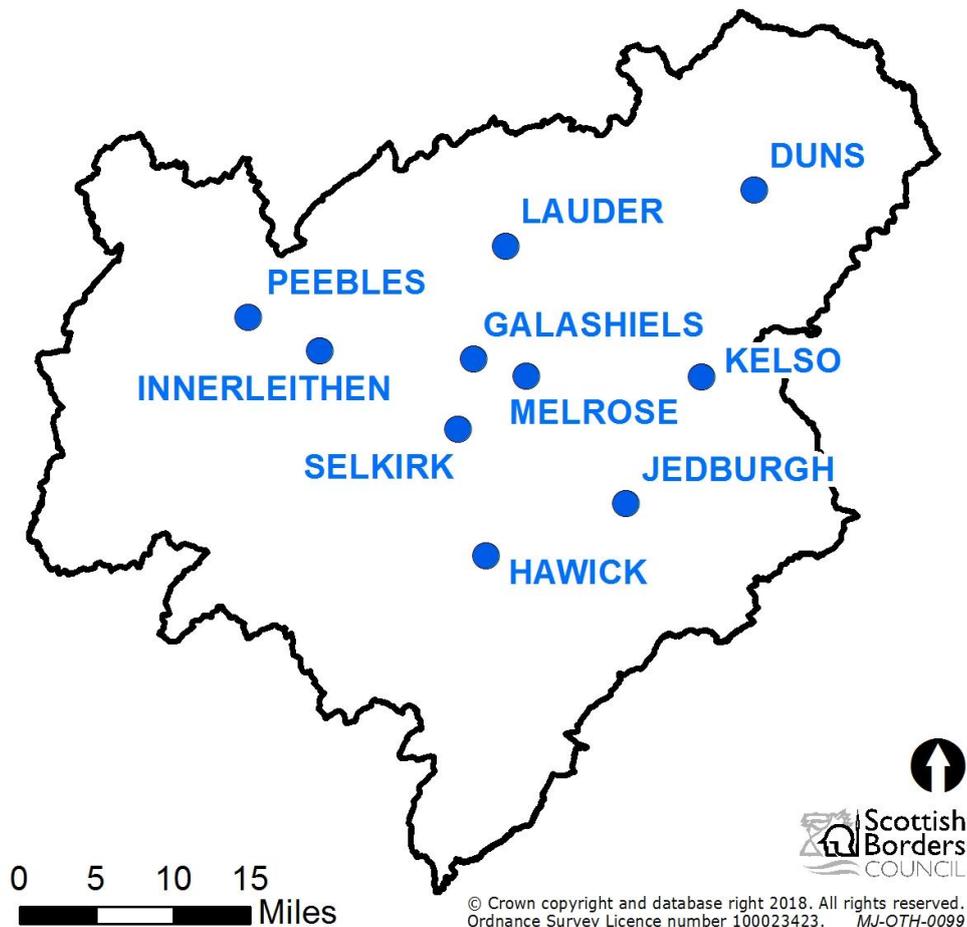
The Trustees present their Annual Report and the Financial Statements for the year ended 31 March 2018.

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:



- 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 - £3,418k
- Revaluation Reserves - £10,038k

Investments Per the Council's 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

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

Trustees

The Trustees of this charity for the year to 31 March 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 4th May 2017, 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	Andy Anderson	Heather Anderson
Stuart Bell	Jim Brown	Kris Chapman
Kevin Drum	Gordon Edgar	Jim Fullarton
John Greenwell	Carol Hamilton	Scott Hamilton
Shona Haslam	Euan Jardine	Helen Laing
Stuart Marshall	Watson McAteer	Tom Miers
Donald Moffat	Simon Mountford	David Parker
Caroline Penman (from 23/02/18)	David Paterson	Clair Ramage
Neil Richards	Euan Robson	Mark Rowley
Harry Scott	Sandy Scott	Eric Small
Robin Tatler	Elaine Thornton-Nicol	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
25 September 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 Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

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 2018

2016/17 £'000		2017/18 £'000	Notes
	Income from:		
27	Donations and legacies	77	1
69	Investments	75	2
238	Charitable activities	216	
334	Total Income	368	
	Expenditure on:		
(385)	Raising funds	(504)	
(171)	Charitable activities	(85)	
(48)	Other: governance costs	(60)	
(604)	Total Expenditure	(649)	3
(8)	(Losses) / gains on investment assets – unrealised	(8)	
(278)	Net Income / (Expenditure)	(289)	
	Other Recognised Gains / (Losses)		
128	Recognition of Investments	0	
(150)	Net Movement in Funds	(289)	
	Reconciliation of Funds		
13,895	Total funds brought forward	13,745	
13,745	Total Funds Carried Forward	13,456	

BALANCE SHEET as at 31 March 2018

as at 31 March 2017			as at 31 March 2018		Notes
£'000	£'000		£'000	£'000	
		Long Term Assets			
10,746		Tangible fixed assets	10,538		5
2,700		Investments	2,659		6
47		Long term loan to third party	35		
	13,493	Total Long Term Assets		13,232	
		Current Assets			
20		Debtors	54		
255		Short term investment in SBC loans fund	259		
	275	Total Current Assets		313	
		Current Liabilities			
	(23)	Creditors: Amounts falling due within 1 year		(89)	
	252	Net Current Assets		224	
	13,745	Total Net Assets		13,456	
		The Funds of the Charity			
	(3,478)	Restricted income funds		(3,464)	7
	(10,267)	Revaluation reserve		(9,992)	
	(13,745)	Total Charity Funds		(13,456)	

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 RESTATED			as at 31 March 2018	
£'000	£'000		£'000	£'000
		Cash Flows from Operating Activities		
	(85)	Net cash provided by / (used in) operating activities (see reconciliation table below)		33
		Cash flows from Investing Activities		
69		Dividends and Interest	75	
0		(Purchase) of tangible fixed assets	(48)	
(218)		(Purchase) of investments	(67)	
221		Movement in short term investments	(5)	
	72	Net Cash Flows from Investing Activities		(45)
		Cash flows from Financing Activities		
13		Cash Received from Loans	12	
	13	Net Cash Flows from Financing Activities		12
	0	Net Movement in Cash		0

Reconciliation of net income / (expenditure) to net cash flow from Operating Activities

2016/17 £'000		2017/18 £'000
(278)	Net income / (expenditure) for the year ended 31 March	(289)
	<i>Adjustments for:</i>	
275	Depreciation charges	267
8	(Gains) / losses on Investments	108
(69)	Dividends and interest	(75)
1	(Increase) / decrease in debtors	(34)
(22)	Increase / (decrease) in creditors	66
0	Other non-cash item	(10)
(85)	Net cash provided by / (used in) operating activities	33

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 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

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

**Shona Haslam
Trustee
Scottish Borders Council Common Good Funds
25 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 its 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	7
0	Innerleithen	0
1	Jedburgh	1
1	Kelso	1
6	Lauder	7
0	Melrose	38
5	Peebles	3
5	Selkirk	18
27		77

Following investigation of title deeds and historic documents, the Scout Hall in Melrose was found to be a Common Good asset, rather than a Council asset. It was valued and recognised as a Melrose Common Good Fund asset on 1 April 2017.

2 Income from Investments

2016/17 £000		2017/18 £'000
3	Bank Interest Receivable from SBC Loans Fund	2
66	Income from Investment Portfolio	73
69		75

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	3	0	3
38	Galashiels	0	2	42	44
160	Hawick	17	13	169	199
17	Innerleithen	0	0	17	17
92	Jedburgh	13	7	45	65
50	Kelso	2	2	53	57
29	Lauder	6	12	26	44
0	Melrose	0	0	3	3
81	Peebles	19	9	72	100
134	Selkirk	28	12	77	117
604		85	60	504	649

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. In addition the fee for the external audit of the charity is charged against Scottish Borders Council General Fund and recharged to the Common Good Funds, recognised under Governance Costs. This fee amounted to £3,500 in 2017/18. A grant from SBC to cover the full cost is recognised under Donations. No Trustee remuneration or other expenses were incurred.

5 Tangible Fixed Assets

The change in the value of tangible fixed 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	0
588	Galashiels	0	(36)	552
3,598	Hawick	0	(40)	3,558
290	Innerleithen	0	(17)	273
464	Jedburgh	0	(14)	452
797	Kelso	0	(43)	756
1,006	Lauder	0	(11)	995
0	Melrose	38	(3)	35
842	Peebles	0	(35)	803
3,161	Selkirk	21	(68)	3,114
10,746		59	(267)	10,538

Asset additions include capital expenditure amounting to £21k which was incurred at Selkirk Victoria Hall in replacing 4 stone pillars at the entrance to the building. Also £38k asset addition being the recognition of a Scout Hall in Melrose as a Common Good Fund asset.

Tangible fixed 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	3,555	3	3,558
290	Innerleithen	273	0	273
464	Jedburgh	454	0	452
797	Kelso	737	19	756
1,006	Lauder	993	0	995
0	Melrose	35	0	35
842	Peebles	801	2	803
3,161	Selkirk	3,113	1	3,114
10,746		10,513	25	10,538

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 fund.

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
2,700		68	101	8	2,659

7 Restricted Income Funds

Balance at 31 March 2017 £'000 RESTATED		SOFA Surplus / (loss)	Unrealised movement on investment assets	Balance at 31 March 2018 £'000
18	Duns	(1)	0	17
317	Galashiels	(3)	0	314
640	Hawick	(34)	1	607
135	Innerleithen	0	0	135
990	Jedburgh	(34)	3	959
291	Kelso	(8)	1	284
296	Lauder	(9)	1	288
0	Melrose	35	0	35
520	Peebles	(8)	1	513
271	Selkirk	40	1	312
3,478		(22)	8	3,464

8 Contingent Assets

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

INDEPENDENT AUDITOR'S REPORT

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

Independent auditor's report to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Common Good Funds for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

September 2018

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

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Kirsty Robb, Pension & Investment Manager,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk



Scottish Borders Council

SBC Welfare Trust

Charity Registration Number: SC044765

annual report and financial statements

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 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 2017, 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 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust.

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 6 page 14.
- Application forms are being finalised and the Trust will be 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 21st 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 2018, 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

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

Trustees

The Trustees of this charity for the year to 31 March 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 4th May 2017, 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	Andy Anderson	Heather Anderson
Stuart Bell	Jim Brown	Kris Chapman
Kevin Drum	Gordon Edgar	Jim Fullarton
John Greenwell	Carol Hamilton	Scott Hamilton
Shona Haslam	Euan Jardine	Helen Laing
Stuart Marshall	Watson McAteer	Tom Miers
Donald Moffat	Simon Mountford	David Parker
Caroline Penman (from 23/02/18)	David Paterson	Clair Ramage
Neil Richards	Euan Robson	Mark Rowley
Harry Scott	Sandy Scott	Eric Small
Robin Tatler	Elaine Thornton-Nicol	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
25 September 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
	Income From:		
2,529	Investments	2,705	1
0	Donations	500	
2,529	Total Income	3,205	
	Expenditure on:		
(278)	Charitable activities	300	2
0	Other: Governance costs	(825)	3
0	Raising Funds	(3,613)	
(278)	Total Expenditure	(4,138)	
(407)	(Loss) / gain on investment assets	(307)	
1,844	Net Movement in Funds	(1,240)	
	Reconciliation of Funds		
109,124	Total funds brought forward	110,968	
110,968	Total Funds Carried Forward	109,728	6

BALANCE SHEET as at 31 March 2018

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

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 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Shona Haslam
Trustee
Scottish Borders Council Welfare Trust
25 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.

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
2,529		2,705

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 and notionally recharged to the SBC Welfare Trust, recognised under Governance Costs. This fee amounted to £500 in 2017/18. A notional grant from SBC to cover the full cost is recognised under Donations. Other Governance costs in 2017/18 consisted of the payment of external consultant fees relating to the Investment Fund Manager move to Kames Capital plc. 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 Monthly Income Fund. At 31 March 2018 all investments were with the Kames fund.

5 Short Term Investments in SBC Loans Fund

All surplus cash is 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	1,451	339	1,939	60,467
4,170	Galashiels & District	a&b	116	(105)	156	4,235
9,070	Leaderdale & Melrose	a&b	219	51	293	8,945
20,274	Jedburgh & District	a&b	508	120	684	19,978
8,281	Hawick/Denholm/Hermitage	a&b	214	48	275	8,172
731	Tweeddale East & West	Unrestricted	18	4	25	720
7,148	Tweeddale East & West	a&b	179	(126)	242	7,211
110,968			2,705	331	3,614	109,728

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
Lands at Calfward	Berwickshire	a & b	27

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

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
Total Funds Transferring			361,625

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

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

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
Total Funds Transferring			212,132

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

Independent auditor's report to the trustees of Scottish Borders Council Welfare Trust and the Accounts Commission.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Welfare Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

September 2018

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

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Kirsty Robb, Pension & Investment Manager,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk



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Scottish Borders Council
SBC Education Trust

Charity Registration Number: SC044762

annual report and financial statements

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 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 Financial Statements for the year ended 31 March 2018.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust according to its charitable purpose.

Charitable Purpose

- To advance and/or promote cultural exchange by, among other things, the payment of grants and/or loans, the award of bursaries, the award of prizes, payment towards cultural exchanges that further an educational purpose both within Scottish Borders area and further afield (including abroad), to such educational institutions, charities or other organisations or to such individuals deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purpose of the advancement of education and/or promotion of cultural exchange.

Summary of the Main Activities

- The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. The charity has made a donation to one eligible beneficiary during the year to 31 March 2018.
- Following consultation work with OSCR the Thomas Howden Wildlife Award Fund (SC015647) was amalgamated into the Education Trust with effect from 1 April 2017.

Plans for the Future

- The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.
- 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 Charity.
- b) In terms of the Trustees' governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



- 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

At 31 March 2018, the reserves of the SBC Education Trust amounted to:

- Restricted Income Funds - £6,351

Investments

Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Kames Capital Diversified Monthly Income Fund.

Reference and Administrative Information

Charity Name SBC Education Trust

Charity registration number SC044762

Business Address Council HQ
Newtown St Boswells
Melrose
Scottish Borders
TD6 0SA

Trustees

The Trustees of this charity for the year to 31 March 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 4th May 2017, 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	Andy Anderson	Heather Anderson
Stuart Bell	Jim Brown	Kris Chapman
Kevin Drum	Gordon Edgar	Jim Fullarton
John Greenwell	Carol Hamilton	Scott Hamilton
Shona Haslam	Euan Jardine	Helen Laing
Stuart Marshall	Watson McAteer	Tom Miers
Donald Moffat	Simon Mountford	David Parker
Caroline Penman (from 23/02/18)	David Paterson	Clair Ramage
Neil Richards	Euan Robson	Mark Rowley
Harry Scott	Sandy Scott	Eric Small
Robin Tatler	Elaine Thornton-Nicol	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
25 September 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
	Income from:		
131	Investments	382	
0	Donations	500	
131	Total Income	882	
	Expenditure on:		
	Charitable activities	(50)	
(50)	Raising Funds	(191)	1
	Other : Governance costs	(517)	2
(50)	Total Expenditure	(758)	
(7)	(Loss) / gains on investment assets	(16)	
74	Net Income / (Expenditure)	108	
	Other Recognised Gains / (Losses)		
0	Recognition of Investments	4,432	
74	Net Movement in Funds	4,540	
	Reconciliation of Funds		
1,737	Total funds brought forward	1,811	
1,811	Total Funds Carried Forward	6,351	

BALANCE SHEET as at 31 March 2018

as at 31 March 2017			as at 31 March 2018		<i>Notes</i>
£	£		£	£	
1,585	1,585	Fixed Assets			
		Investments	5,004		3
226		Current Assets		5,004	
		Short term investment in SBC loans fund.	1,347		4
	226	Net Current Assets		1,347	
	1,811	Total Net Assets		6,351	
(1,811)		The Funds of the Charity			
		Restricted income funds	(6,351)		5
	(1,811)	Total Charity Funds		(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 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Shona Haslam
Trustee
Scottish Borders Council Education Trust
25 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.

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 and notionally recharged to the SBC Education Trust, recognised under Governance Costs. This fee amounted to £500 in 2017/18. A notional grant from SBC to cover the full cost is recognised under Donations. Other Governance costs in 2017/18 consisted of the payment of external consultant fees relating to the Investment Fund Manager move to Kames Capital plc. 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 the Newton Real Return Fund to the Kames Capital Diversified Monthly Income Fund. At 31 March 2018 all investments were held in the Kames Fund.

4 Short Term Investments in SBC Loans Fund

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

5 Restricted Income 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.

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

INDEPENDENT AUDITOR'S REPORT

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

Independent auditor's report to the trustees of Scottish Borders Council Education Trust and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Education Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

September 2018

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

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb	Telephone: 01835 – 825249
Pension & Investment Manager	E-mail: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Kirsty Robb, Pension & Investment Manager,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk



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

annual report and financial statements

for the year to 31 March 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 21st December 2017, 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 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council had 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 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

- 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.
- Application forms are being finalised and the Trust will be 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 Community Enhancement Trust.
- b) In terms of the Trustees' governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:

Financial
Regulations

Code of
Corporate
Governance

Procedural
Standing
Orders

Scheme of
Administration

Scheme of
Delegation

- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard 102 (FRS102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 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

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

Trustees

The Trustees of this charity for the year to 31 March 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 4th May 2017, 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	Andy Anderson	Heather Anderson
Stuart Bell	Jim Brown	Kris Chapman
Kevin Drum	Gordon Edgar	Jim Fullarton
John Greenwell	Carol Hamilton	Scott Hamilton
Shona Haslam	Euan Jardine	Helen Laing
Stuart Marshall	Watson McAteer	Tom Miers
Donald Moffat	Simon Mountford	David Parker
Caroline Penman (from 23/02/18)	David Paterson	Clair Ramage
Neil Richards	Euan Robson	Mark Rowley
Harry Scott	Sandy Scott	Eric Small
Robin Tatler	Elaine Thornton-Nicol	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
25 September 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
	Income from:		
1,873	Investments	1,997	1
0	Donations	500	
1,873	Total Income	2,497	
	Expenditure on:		
0	Charitable activities	0	2
0	Raising Funds	(2,697)	
0	Other : Governance Costs	(743)	3
0	Total Expenditure	(3,440)	
(304)	(Loss) / gain on investment assets	(229)	4,5
1,569	Net Movement in Funds	(1,172)	
	Reconciliation of Funds		
71,991	Total funds brought forward	73,560	6
73,560	Total Funds Carried Forward	72,388	

BALANCE SHEET as at 31 March 2018

as at 31 March 2017			as at 31 March 2018		Notes
£	£		£	£	
73,521	73,521	Fixed Assets	70,594	70,594	4
		Investments			
39	39	Current Assets	1,794	1,794	5
		Short term investment in SBC loans fund.			
	73,560	Total Net Assets		72,388	
(73,560)		The Funds of the Charity	(72,388)		6
		Restricted income funds			
	(73,560)	Total Charity Funds		(72,388)	

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 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Shona Haslam
Trustee
Scottish Borders Council Community
Enhancement Trust
25 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.

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
1,873		1,997

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 and notionally recharged to the SBC Community Enhancement Trust, recognised under Governance Costs. This fee amounted to £500 in 2017/18. A notional grant from SBC to cover the full cost is recognised under Donations. Other Governance costs in 2017/18 consist of the payment of external consultant fees relating to the Investment Fund Manager move to Kames Capital plc. 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 Monthly Income Fund. At 31 March 2018 all investments were with the Kames Fund.

5 Short Term Investments in SBC Loans Fund

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

6 Restricted Income 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 the Kames investment during the year. These balances are required to be included in order to reconcile opening and closing balances.

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
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
73,560			1,997	3,169	72,388

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
Total Transferring			2,255

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
Yair Bequest	Kelso & District	b	30

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

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
Miss E.Chalmer's Bequest	Selkirk & District	b	24

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

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
Total Funds Transferring			104,079

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 met

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

Independent auditor's report to the trustees of Scottish Borders Council Community Enhancement Trust and the Accounts Commission.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Community Enhancement Trust for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

September 2018

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

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: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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Contact us at Kirsty Robb, Pension & Investment Manager,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk



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

annual report and financial statements

for the year to 31 March 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 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

At 31 March 2018, the reserves of the Ormiston Trust for Institute amounted to:

- Restricted Income Funds - £270,199

Investments Per the Council's Common Good and Trust Fund investment strategy, the main balance of funds are invested in the Kames Capital Diversified Monthly Income 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 4th May 2017, 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
25 September 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
	Income From:		
257	Investments	273	1
0	Other : Donations	500	
257	Total Income	773	
	Expenditure on		
(25,500)	Raising funds	(25,863)	3
(257)	Charitable activities	(123)	2
0	Other : Governance Costs	(533)	6
(25,757)	Total Expenditure	(26,519)	
(49)	Gains/(Loss) / gain on investment assets	(32)	
(25,549)	Net Movement in Funds	(25,778)	
	Reconciliation of Funds		
321,446	Total funds brought forward	295,897	
295,897	Total Funds Carried Forward	270,119	

BALANCE SHEET as at 31 March 2018

as at 31 March 2017 Restated			as at 31 March 2018		Notes
£	£		£	£	
		Fixed Assets			
285,500		Tangible assets	260,000		4
10,092		Investments	9,697		5
	295,592			269,697	
		Current Assets			
405		Short term investment in SBC loans fund.	508		
	405	Total Current Assets		508	
		Current Liabilities			
		Creditors:			
	(100)	Amounts falling due within 1 year		(86)	
	295,897	Total Net Assets		270,119	
		The Funds of the Charity			
(295,897)		Restricted income funds	(270,119)		
	(295,897)	Total Charity Funds		(270,119)	

All of the charity's activities are continuing.

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

The unaudited accounts were issued on 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

David Parker
Trustee
Scottish Borders Council Ormiston Trust for
Institute
25 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

Income from bank interest and dividends have been included in the 2017/18 figures as detailed below.

2016/17		2017/18	
£'000		£'000	
1	Bank Interest Receivable	1	
256	Income from Investment Portfolio	272	
257		273	

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 Expenditure on Raising Funds

Expenditure on Raising Funds includes 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 and land at Greenyards in Melrose.

The movement in the value of Tangible Fixed Assets has been driven solely by the annual depreciation charge in 2017/18 as follows:

	£'000
Opening Balance at 1 April 2017	285,500
Depreciation for year	25,500
Closing Balance at 31 March 2018	260,000

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 Monthly Income Fund. At 31 March 2018 all investments were held in the Kames Fund.

6 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund and notionally recharged to the Ormiston Institute, recognised under Governance Costs. This fee amounted to £500 in 2017/18. A notional grant from SBC to cover the full cost is recognised under Donations. Other Governance costs in 2017/18 consisted of the payment of external consultant fees relating to the Investment Fund Manager move to Kames Capital plc. No Trustee remuneration or other expenses were incurred.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Ormiston Trust for Institute and the Accounts Commission for Scotland

Independent auditor's report to the trustees of Scottish Borders Council Ormiston Trust for Institute and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Ormiston Trust for Institute for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

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

September 2018

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

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: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk

Scottish Borders Council SBC Charitable Trusts

Charity Registration Number: SC043896

annual report and financial statements

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 21st 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 1st 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 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 from the SBC Charitable Trusts 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 with a view to further amalgamation into existing SBC Trusts.
- b) In terms of the Trustees' governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The Local Code of Corporate Governance of Scottish Borders Council covers the governance of the Charity and is comprised of the following:



- 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

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 4th May 2017, 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	Andy Anderson	Heather Anderson
Stuart Bell	Jim Brown	Kris Chapman
Kevin Drum	Gordon Edgar	Jim Fullarton
John Greenwell	Carol Hamilton	Scott Hamilton
Shona Haslam	Euan Jardine	Helen Laing
Stuart Marshall	Watson McAteer	Tom Miers
Donald Moffat	Simon Mountford	David Parker
Caroline Penman (from 23/02/18)	David Paterson	Clair Ramage
Neil Richards	Euan Robson	Mark Rowley
Harry Scott	Sandy Scott	Eric Small
Robin Tatler	Elaine Thornton-Nicol	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
25 September 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
	Income from:		
205	Donations and legacies	683	1
33,244	Investments	35,361	2
33,449	Total Income	36,044	
	Expenditure on:		
(8,645)	Charitable activities	(15,897)	
0	Raising Funds	(20,379)	3
0	Other : Governance Costs	(2,316)	
(8,645)	Total Expenditure	(38,592)	
(2,280)	(Loss) / gain on investment assets	(1,716)	
22,524	Net Movement in Funds	(4,264)	
	Reconciliation of Funds		
593,942	Total funds brought forward	616,466	
616,466	Total Funds Carried Forward	612,202	

BALANCE SHEET as at 31 March 2018

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

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 26 June 2018 and the audited accounts were authorised for issue on 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 September 2018

Shona Haslam
Trustee
Scottish Borders Council Charitable Trusts
25 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 its 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

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	
33,244		35,361	

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 and notionally recharged to the SBC Charitable Trust, recognised under Governance Costs. This fee amounted to £500 in 2017/18. A notional grant from SBC to cover the full cost is recognised under Donations. Other Governance costs in 2017/18 consisted of the payment of external consultant fees relating to the Investment Fund Manager move to Kames Capital plc. 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 Diversified Monthly Income Fund.

6 Short Term Investments in SBC Loans Fund

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

7 Restricted Funds

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	79	84	869
3,870	Ayton War Memorial Fund	106	3020	956
6,547	Berwickshire Educational Trust	933	245	7,235
423	Brown Bequest	11	16	418
320	C W Dunnet Award	26	11	335
811	Campbell Calderhead Prize	51	29	833
16,612	Clive Craig-Brown Bequest	429	671	16,370
3,056	Col. Jem Richard Prize Fund	180	108	3,128
943	Coldstream Guards Prize	82	38	987
62	Coldstream War Memorial	2	4	60
1,589	Dalrymple's Mortification	41	64	1,566
1,428	Dr Milne Memorial Fund	81	51	1,458
105,342	Dunlop Bequest	2728	4262	103,808
1,827	Edgar Bequest	47	73	1,801
3,173	Elliot Mortification	83	129	3,127
3,226	Ewan Trust	84	131	3,179
1,096	Ex Provost Mercer's Bequest No1	31	97	1,030
209	Ex Provost Mrs Laidlaw's Benefaction	6	14	201
4,876	F W Dobson VC	373	197	5,052
17,170	Ferguson D Dunwhinny Fund	440	694	16,916
2,428	G D Gibson's Bequest	68	160	2,336
17,133	Geoffrey Simpson Bequest	1727	675	18,185
10,337	George D Gibson's Bequest	291	417	10,211
578	Hans D Langmack Prize Fund	42	23	597
1,878	Henry Laidlaw Trust	53	124	1,807
621	I Wallace Bequest	29	56	594
23,144	J A S Henderson Memorial Scholarship	2693	622	25,215
2,921	J Purves Bequest	194	115	3,000
1,051	James Robertson Trust	67	37	1,081
84	James West Brown's Bequest	2	5	81
1,382	Jane Grieve Endowment	84	49	1,417
1,809	Jean Kincaird Grieve Endowment	104	64	1,849
11,367	Jedburgh Coal Fund	461	430	11,398
1,535	Jedburgh Public Library Fund	40	62	1,513
1,532	John Herbertson Bequest	42	101	1,473
239	John Hunter's Bequest	6	16	229
663	John Jamieson Prize Fund	38	24	677
95	John Murray's Bequest	3	6	92

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

351	Joshua Goodfellow's Bequest	9	13	347
625	Kelso Library Book Fund	17	26	616
626	Kennedy Medal Fund	40	21	645
1,680	Kenneth Cochrane Library Fund	43	68	1,655
27	Lands at Calfward	1	1	27
262	Longformacus Public Park	7	18	251
3,981	Marjoribanks Bequest	105	165	3,921
839	Mary Dickson Prize Fund	63	33	869
556	McKinley Trust	14	20	550
22,399	Miss A T Waldie Trust	814	958	22,255
838	Mr & Mrs W F Johnstone Fund	43	31	850
424	Mrs Adams Bequest	10	14	420
976	Mrs Clelland Memorial Prize	56	35	997
2,834	Mrs Hobkirk's Fund	73	114	2,793
175	Mrs M Cheetham Bequest	5	11	169
2,960	Murray Medal Fund	212	115	3,057
261	Peebles Public Library	7	10	258
22,665	Peeblesshire Educational Trust	2411	2806	22,270
25,652	R D Forman's Bequest	666	1039	25,279
4,779	Raith's Mortification	125	196	4,708
1,248	Robert Meggit's Bequest	35	82	1,201
53,037	Robert Watson Fund	1479	3500	51,016
102,212	Roxburghshire Educational Trust	10560	9527	103,245
3,600	Selkirk Library Fund	93	146	3,547
12,495	Selkirkshire Educational Trust	1327	1497	12,325
26,093	Simpson D Dunwhinny Fund	1922	924	27,091
6,499	Sir John Robert's Bequest	168	262	6,405
21,998	Sir Walter Leitch Scholarship	2691	3343	21,346
1,260	Special Air Service Reg. Fund	93	51	1,302
12,315	T J S Roberts Trust	319	498	12,136
2,375	Thomas B Williamson Bequest	62	96	2,341
1,290	Walter Geddes Prize Fund	71	47	1,314
1,063	Waugh Bequest	25	38	1,050
24,344	William Forrester's Bequest	679	1606	23,417
463	William Laidlaw Memorial Fund	12	18	457
301	Wm Brown's Bequest	8	15	294
616,466		36,044	40,308	612,202

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 1st 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 Accounts Commission for Scotland

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Scottish Borders Council Charitable Trusts for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Accounting Policies and Notes to the Financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

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

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

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

September 2018

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

ADDITIONAL INFORMATION

Contact Details

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

Kirsty Robb	Telephone: 01835 –825249
Pension & Investment Manager	E-mail: krobb@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Kirsty Robb, Pension & Investment Manager,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825249 Fax: 01835 825011 or email: KRobb@scotborders.gov.uk

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annual report and financial statements

Bridge Homes LLP

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

Company Name	Bridge Homes LLP
Company Registration Number	SO304775
Registered Office	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

Designated Members

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

Scottish Borders Council

Scottish Future Trust Investments Ltd

The members who held office at the date of approval of this members report confirm that, so far as they are each aware, there is no relevant audit information of which Bridge Homes' auditor is unaware; and each member has taken all the steps they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that Bridge Homes' auditor is aware of that information.

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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore remain in office.

Professional support

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

Principal Activity

The principal activity of Bridge Homes during the year was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders.

Policy with respect to members' drawings and subscription and repayments of amounts subscribed or otherwise contributed by members

1. Cash received by Bridge Homes, excluding property disposal proceeds, will be allocated firstly to pay any operating costs, secondly in payment of any accrued interest charges on loan advances, thirdly to reimburse any amounts paid out under the Scottish Government guarantee (see below) and fourthly to establish and maintain the required Reserve Account balance. Any residual balances after making the above payments will be held to apply in early repayment of loan advances. Such balances will not be distributed without the unanimous approval of members and where any payment under the Facility Agreement (between Bridge Homes and Scottish Borders Council) has not been made in accordance with its terms.
2. Cash received from property disposals will be allocated firstly to reimburse any amounts paid out under the Scottish Government guarantee, secondly to pay any operating costs relating to the property disposed, thirdly in payment of any accrued interest charges on loan advances, fourthly to establish and maintain the Reserve Account balance, fifthly to repay any loan principal, sixth to pay any residual disposal proceeds to Scottish Borders Council and finally, following disposal of the final property, to repay the initial capital.

Business Review

Background

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

Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

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

SFT monitors the projects as a result of the Scottish Government guarantee for the loans.

Governance

The Bridge Homes Board has been established with 2 Council Senior Officers and 1 SFT Senior Officer on the Board. The Board meets quarterly and the financial viability of projects require to be signed off by all 3 Directors.

A Project Board, supported through the Council, has been established and meets regularly to oversee the development and delivery of the initiative. A Project Team, consisting of officers from the Council, has also been established to identify properties, secure property management service providers, develop systems and deliver the project.

Activity Summary

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
25 September 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 year. 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 *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 its profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2018

2016/17 Restated £		2017/18 £	Notes
164,549	Turnover	222,549	1
(41,045)	Cost of Sales	(47,943)	2
123,504	Gross Profit	174,606	
(20,569)	Administrative Expenses	(24,935)	3
27,373	Revaluations	(13,686)	
130,308	Operating Profit	135,985	
(82,146)	Interest Payable & Similar Expenses	(90,733)	4
48,162	Profit For The Financial Year Available For Discretionary Division Among Members	45,252	5
581,767	Other Comprehensive Income Revaluation Gain on Property	315,486	
629,929	Total Comprehensive Income	360,738	

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 For The Financial Year	45,252
48,162	Total Recognised Gains For The Financial Year	45,252

BALANCE SHEET as at 31 March 2018

2016/2017 Restated £		2017/2018		Notes
		£	£	
5,863,810	Fixed Assets			
	Property, Plant and Equipment		6,165,609	5
	Current Assets			
93,414	Debtors	114,185		6
30,327	Cash at Bank	124,413		
123,741		238,598		
	Creditors			
(17,980)	Amounts falling due within 1 year	(73,898)		7
105,761	Net Current Assets		164,700	
5,969,571	Net Assets attributable to Members		6,330,309	
	Represented By:			
4,600,602	Loans and Other Debts due to Members		4,600,602	8
	Members' Other Interests			9
759,002	Capital Account	759,002		
10,703	Profit and Loss Reserve	55,955		
599,264	Revaluation Reserve	914,750		
5,969,571	Total Members' Interests		6,330,309	

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
25 September 2018

Company Registered Number: SO304775

CASH FLOW STATEMENT for the year ended 31 March 2018

2016/17 Restated £		2017/18 £
	Reconciliation of Profit to Net Cash Flow from Operating Activities	
48,162	Profit for the Financial Year	45,252
54,773	Adjustments to Profit for Non Cash Movements	104,421
6,176	(Increase)/Decrease in Debtors	(20,772)
(11,658)	Increase/(Decrease) in Creditors due within 1 year	55,918
97,453	Net Cash Inflow from Operating Activities	184,819

2016/17 Restated £		2017/18 £
	Cash Flow Statement	
97,453	Net Cash Inflow from Operating Activities	184,819
	Investing Activities	
(2,587,282)	Purchase of investment property	0
(2,587,282)	Net Cash Inflow/(Outflow) from Investing Activities	0
	Financing Activities	
330,000	Capital Received	0
2,257,282	Cash received from loans and other borrowing	0
(82,146)	Interest Payable	(90,733)
2,505,136	Net Cash Inflow/(Outflow) from Financing Activities	(90,733)
15,307	Increase in Cash	94,086
15,307	Movement in Cash in Period	94,086

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 Members	Total
	£	£	£	£	£
Balance at 1 April 2017	759,002	10,703	599,264	4,600,602	5,969,571
Profit For The Year Available for Discretionary Division Among Members	0	45,252	0	0	45,252
Loan Funding Provided By Members	0	0	0	0	0
Revaluations	0	0	315,486	0	315,486
Capital Introduced By Members	0	0	0	0	0
Balance at 31 March 2018	759,002	55,955	914,750	4,600,602	6,330,309

Restated	Members Capital (Classified As Equity)	Profit & Loss Reserve	Revaluation Reserve	Loans & Other Debts Due To Members	Total
	£	£	£	£	£
Balance at 1 April 2016, as previously reported	429,002	(19,962)	0	2,343,320	2,752,360
Impact of correction or errors*	0	(17,497)	17,497	0	0
Restated balance at 1 April 2016	429,002	(37,459)	17,497	2,343,320	2,752,360
Profit For The Year Available for Discretionary Division Among Members	0	48,162	0	0	48,162
Loan Funding Provided By Members	0	0	0	2,257,282	2,257,282
Revaluations	0	0	581,767	0	581,767
Capital Introduced By Members	330,000	0	0	0	330,000
Balance at 31 March 2017	759,002	10,703	599,264	4,600,602	5,969,571

*Refer to note 12 for details

ACCOUNTING POLICIES

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

Basis of Preparation

The financial statements have been prepared under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with FRS 102 1A, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Statement of Recommended Practice: Accounting by Limited Liability Partnerships (effective 2017) issued by the CCAB (Consultative Committee of Accountancy Bodies).

Accruals of Income and Expenditure

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

- Fees, charges and rents due from tenants are accounted for as income at the date the relevant service is provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Interest payable on capital advances is accounted for based on the applicable 4^{1/2} - 5 year PWLB (Public Works Loan Board) fixed interest rate applicable at the date the borrowing was initially incurred.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the revenue account, unless they properly represent capital receipts or capital expenditure.

Turnover

Turnover represents invoiced rental income from tenanted investment properties. This rental income is exempt from value added tax.

Tangible Fixed Assets

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

Land and Buildings are shown at most recent valuation. Any aggregate surplus or deficit arising from changes in market value is transferred to a revaluation reserve.

Under the Revaluation Policy, Property, Plant and Equipment are subject to revaluation every year. The fixed assets were revalued as at 31 March 2018 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
164,549		222,549

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
41,045		47,943

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
20,569		24,935

4 Interest Payable & Similar Charges

2016/17 £		2017/18 £
192	Bank Charges	40
81,955	Interest Payable to Local Authority	90,693
82,146		90,733

5 Land and Buildings

2016/17 £		2017/18 £
2,667,388	NBV at 31 March 2017	5,863,809
2,587,282	Additions at Cost	0
609,140	Revaluations	301,800
5,863,810	NBV at 31 March 2018	6,165,609

6 Debtors

2016/17 £		2017/18 £
0	Unpaid Rental Income	20,772
9,411	Grant for Central Support Costs	9,411
84,003	Other Debtors	84,002
93,414		114,185

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
17,980		73,898

8 Loans & Other Debts Due To Members

2016/17 £		2017/18 £
2,257,282	Loan from Local Authority	4,600,602

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
330,002		2

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.

12 Prior Year Restatement

It should be noted that various core statements for 2016/17 have been restated. These statements have been amended to reflect the reversal of prior year's impairment which was previously shown within Other Comprehensive Income but is now reported as part of operating profit in the 2016/17 restated figures. Within the Profit and Loss Statement this has resulted in an increase in Profit for the Financial Year Available for Discretionary Division Among Members of £27,418 with a corresponding decrease in Other Comprehensive Income. There has also been an adjustment to the 2016 opening balances on the Balance Sheet, the Revaluation Reserve has increased by £17,497 with an equivalent movement in the Profit and Loss Reserve – see restated Changes in Equity Statement. This restatement does not have a material impact on the current or prior year result or financial position.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

Opinion

We have audited the financial statements of Bridge Homes LLP ("the LLP") for the year ended 31 March 2018 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page 5, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

27 September 2018

CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

Suzy Douglas	Telephone: 01835 – 825881
Financial Services Manager	E-mail: sdouglas@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Suzy Douglas, Financial Services Manager, Financial Services,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825881 Fax: 01835 825011 or email: sdouglas@scotborders.gov.uk

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Scottish Borders Supports LLP

Registered number SO305176

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 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 from 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 independent 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 independent members 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).

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
Total Comprehensive Income/(Loss) for the year	(310)	44
<i>Remove Accounting Standard Adjustments:</i>		
Movement in Annual Leave Accrual	4	1
Income/(Loss) for the year on a Management Accounts Basis	(306)	45

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 to provide adult social care services for the year ending 31 March 2018. This amount is agreed with the Council as part of the ongoing contract discussions and represents an agreed overall savings target on the 2017/18 contract price and is shown in the Council's accounts as part of their overall efficiency/savings programme. It is presented as a rebate as the delivery of the efficiency savings enables a reduction in the contract price.

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

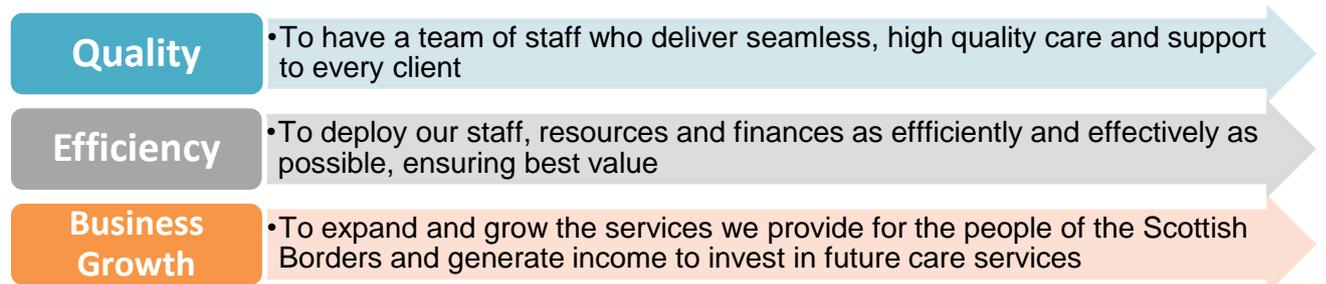
As stated previously Scottish Borders Supports LLP is one of the two entities which combine to trade as SB Cares. As the Board of Management sets the strategic objectives and oversees the performance and management of the two LLPs as a combined whole, the Business Review is being presented as a joint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

Strategic Context

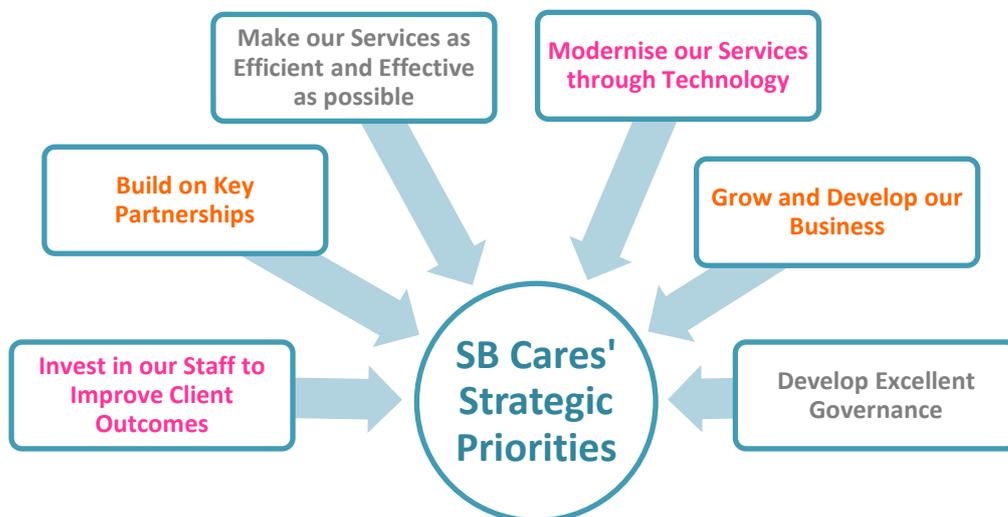
SB Cares' Vision is to:



SB Cares will focus on 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 of new technology for call handling, which will enable the provision of cost effective services, 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 of 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.

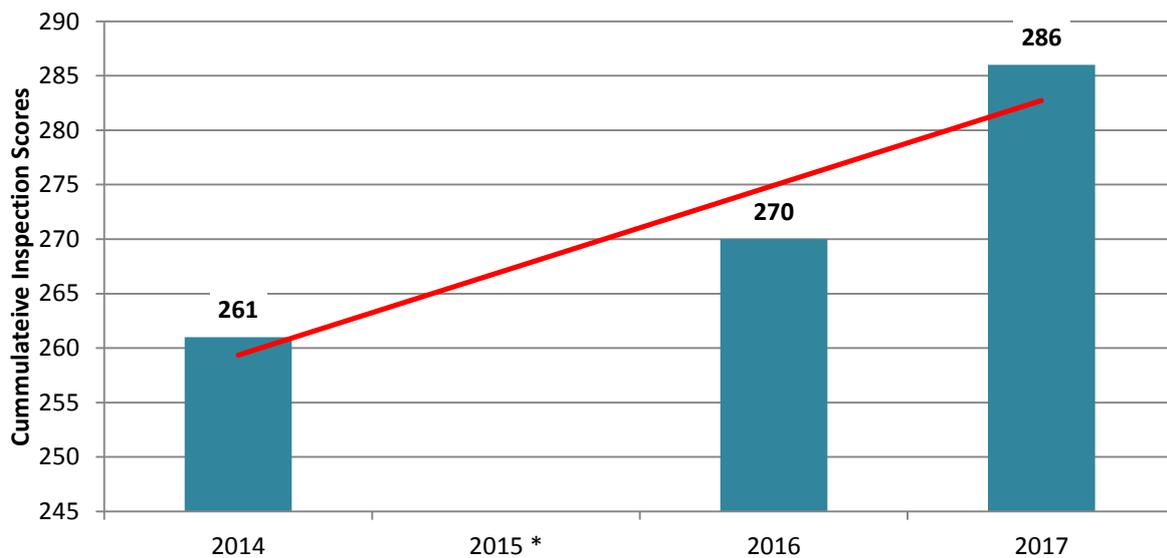
Members' Annual Report *(continued)*

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 demonstrating these improvements.

SB Cares' Care Inspection Score



* 2015 SB Cares first registered services no inspections took place, the 2014 information relates to the scores achieved when services provided through Scottish Borders Council

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 regularly reviewed to ensure that it reflects risks and mitigations associated with the delivery of its current Business Plan. The regular review is undertaken by the 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 clients as well as reviewing its 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 trading position as presented on a management accounts basis for 2017/18.

	Year Ending 31 March 2018		
	SB Supports LLP £000	SB Cares LLP £000	Total SB Cares £000
Total Comprehensive Income/(Loss) for the year	44	(735)	(691)
<i>International Accounting Standard Adjustments:</i>			
IAS 19 Retirement Benefits Adjustments	-	723	723
SBC Service Efficiency Contract Rebate	465	-	465
Movement in Annual Leave Accrual	(1)	6	5
Income/(Loss) for the year on a Management Accounts Basis	508	(6)	502

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
Total Recurring Savings	480	480	945
One-Off Savings returned to SBC - 2016/17	-	600	-
Annual Savings	480	1,080	945
% of Contractual Management Fee	3%	7%	6%
Cumulative Savings	480	1,560	2,505

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

Philip Barr

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

Designated member

6 September 2018

Statement of Members' Responsibilities in respect of the Members' Report and the Financial Statements

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with 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 its profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

Profit and Loss Account

for the year ended 31 March 2018

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

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

Balance Sheet

at 31 March 2018

2017		2018	Notes to Accounts Ref.
£000		£000	
678	Fixed Assets	849	7
	Current Assets		
74	Stock	87	8
221	Debtors	669	9
2,946	Cash at Bank and in Hand	2,038	
3,241		2,794	
	Creditors		
(3,939)	Amounts failing due within 1 year	(3,619)	10
(698)	Net Current Liabilities	(825)	
(20)	Net Assets / (Liabilities) attributable to Members	24	
	Represented by:		
	Members' Other Interests:		
-	Members Capital Account	-	
(20)	Profit and Loss Reserve	24	
(20)	Total Members' Interests	24	

The Accounting Policies on pages 18 to 20 and the Notes to the Accounts on pages 21 to 24 form an integral part of these Financial Statements. These financial statements were approved by the Members and authorised for issue on 6 September 2018 and were signed on its behalf by:

Philip Barr
For and on behalf of
Scottish Borders Council
Designated member
6 September 2018
Company registered number: **SO305176**

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
Balance at 1 April 2016	-	290	290
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	-	(310)	(310)
Balance at 31 March 2017	-	(20)	(20)
Balance at 1 April 2017	-	(20)	(20)
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	-	44	44
Balance at 31 March 2018	-	24	24

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 4. The Members have prepared cashflow forecasts which take into account the fact that the LLP has a service provision agreement in place with Scottish Borders Council until March 2020. These cashflow forecasts indicated that the LLP has adequate resources to continue in operational existence for the foreseeable future. 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 for individual assets or £5,000 for grouped assets 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.

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	11

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

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	14,869
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
Total Cost of Sales	17,075	17,221

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	601
Depreciation (See Note 7)	28	100
Auditor's Remuneration *	22	22
Other Administration Expenses	211	289
	779	1,012

*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	5
	6	5

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

	IT Systems & Equipment	Plant & Equipment	Rehabilitation equipment	Total
	£000	£000	£000	£000
Book Value as at 31 Mar 2017*	20	64	628	712
Additions During Year	-	49	222	271
Book Value as at 31 Mar 2018	20	114	850	983
Accumulated Depreciation to 31 Mar 2017	(5)	(2)	(27)	(34)
Depreciation Charge for year	(7)	(13)	(80)	(100)
Accumulated Depreciation to 31 Mar 2018	(12)	(15)	(107)	(134)
Net Book Value as at 31 Mar 2017	15	62	601	678
Change in Net Book Value during Year	(7)	36	142	171
Net Book Value as at 31 Mar 2018	8	98	743	849

*Restated Opening Book Value and Accumulated Depreciation to 31 March 2017 for IT Systems and Equipment and Plant and Equipment due to a correction of the categorisation in previous year's accounts.

8 Stock

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

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	145	275
Total Debtors	221	669

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	2,342	2,618
Other Creditors	706	59
Total Creditors: Amounts falling due within One Year	3,939	3,619

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

Opinion

We have audited the financial statements of Scottish Borders Supports LLP ("the LLP") for the year ended 31 March 2018 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Net Assets Attributable to Members and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Independent Auditor's Report to the Members of Scottish Borders Supports LLP (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit[; or
- the members were not entitled to prepare financial statements in accordance with the small limited liability partnerships' regime.

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page 14, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of Scottish Borders Supports LLP (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Reference and Administration Information

Company Name	Scottish Borders Supports LLP
Company Registration Number	SO305176
Registered Office	Council Headquarters Newtown St Boswells MELROSE Scottish Borders TD6 0SA
Statutory Auditor	KPMG LLP Chartered Accountants Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	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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T 01835 826700 sbcares.co.uk

SB CARES is the trading name of Scottish Borders Cares LLP (SO305156) and Scottish Borders Supports LLP (SO 305176).
Both bodies are Limited Liability Partnerships working with Scottish Borders Council to provide Adult Social Care Services.



Scottish Borders Cares LLP

Registered number SO305156

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 2017 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 independent 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 independent 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).

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
Total Comprehensive Income/(Loss) for the year	(2,676)	(735)
<i>Remove Accounting Standard Adjustments:</i>		
Retirement Benefits Adjustments	2,627	723
Movement in Annual Leave Accrual	49	6
Income/(Loss) for the year on a Management Accounts Basis	-	(6)

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

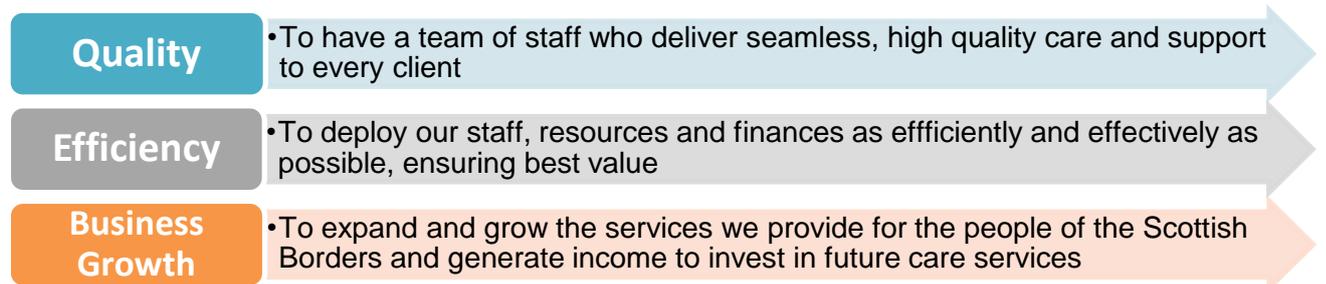
As stated previously Scottish Borders Supports LLP is one of the two entities which combine to trade as SB Cares. As the Board of Management sets the strategic objectives and oversees the performance and management of the two LLPs as a combined whole, the Business Review is being presented as a joint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

Strategic Context

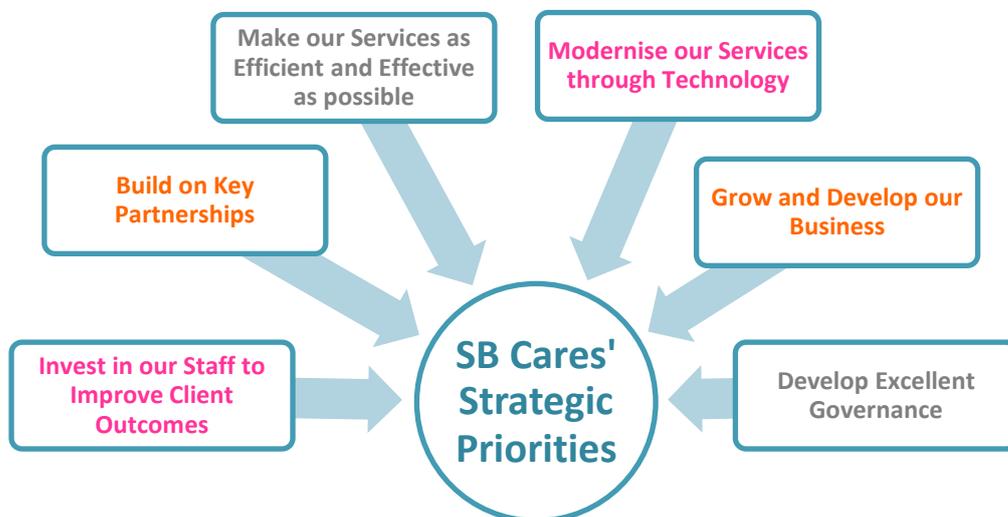
SB Cares' Vision is to:



SB Cares will focus on 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 of new technology for call handling, which will enable the provision of cost effective services, deliver increased service 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 of 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)*

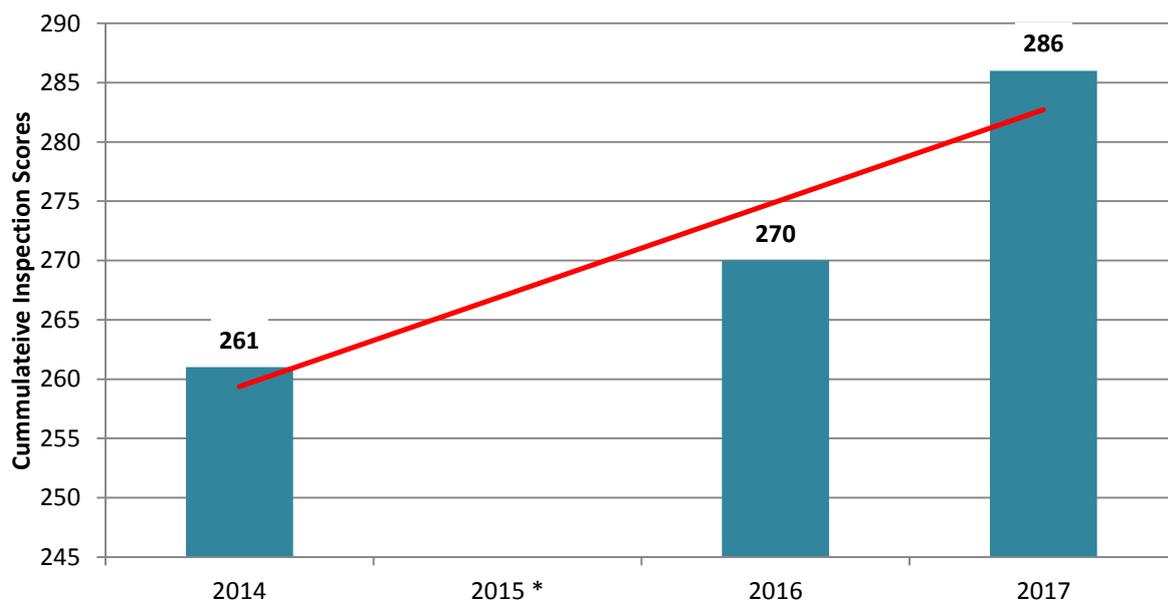
Quality of Our Care

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 demonstrating these improvements.

SB Cares' Care Inspection Score



* 2015 SB Cares first registered services no inspections took place, the 2014 information relates to the scores achieved when services provided through Scottish Borders Council

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 regularly reviewed to ensure that it reflects risks and mitigations associated with the delivery of its current Business Plan. The regular review is undertaken by the 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 its 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 trading position as presented on a management accounts basis for 2017/18.

	Year Ending 31 March 2018		
	SB Supports LLP £000	SB Cares LLP £000	Total SB Cares £000
Total Comprehensive Income/(Loss) for the year	44	(735)	(691)
<i>International Accounting Standard Adjustments:</i>			
IAS 19 Retirement Benefits Adjustments	-	723	723
SBC Service Efficiency Contract Rebate	465	-	465
Movement in Annual Leave Accrual	(1)	6	5
Income/(Loss) for the year on a Management Accounts Basis	508	(6)	502

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
Total Recurring Savings	480	480	945
One-Off Savings returned to SBC - 2016/17	-	600	-
Annual Savings	480	1,080	945
% of Contractual Management Fee	3%	7%	6%
Cumulative Savings	480	1,560	2,505

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

Philip Barr

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

Designated member

6 September 2018

Statement of Members' Responsibilities in respect of the Members' Report and the Financial Statements

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with 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 its profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

Profit and Loss Account

for the year ended 31 March

2017		2018	Notes to Accounts Ref
£000		£000	
14,920	Turnover	14,890	1
(16,000)	Cost of Sales	(17,227)	2, 6
(1,080)	Gross Loss	(2,337)	
-	Administrative Expenses	-	
(1,080)	Loss on Ordinary Activities after Taxation	(2,337)	
(1,080)	Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	(2,337)	
	Other Comprehensive Income/(Loss):		
(1,596)	Actuarial (Loss)/Gain from Pension Obligations	1,602	6
(2,676)	Total Comprehensive Loss for the year	(735)	

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

Balance Sheet

at 31 March

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

The Accounting Policies on pages 18 to 20 and the Notes to the Accounts on pages 21 to 29 form part of these Financial Statements. These financial statements were approved by the Members and authorised for issue on 6 September 2018 and were signed on its behalf by:

Philip Barr
For and on behalf of
Scottish Borders Council
Designated member
Company registered number: **SO305156**
6th September 2018

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
Balance at 1 April 2016	-	(997)	(297)	(1,294)
Loss for the Financial Year Available for Discretionary Division Among Members	-	-	(1,080)	(1,080)
Actuarial Loss from Pension Obligations	-	(1,596)	-	(1,596)
Transfer to/From Pension Reserve	-	(1,031)	1,031	-
Balance at 31 March 2017	-	(3,624)	(346)	(3,970)
Balance at 1 April 2017	-	(3,624)	(346)	(3,970)
Loss for the Financial Year Available for Discretionary Division Among Members	-	-	(2,337)	(2,337)
Actuarial Gain from Pension Obligations	-	1,602	-	1,602
Transfer to/From Pension Reserve	-	(2,325)	2,325	-
Balance at 31 March 2018	-	(4,347)	(358)	(4,705)

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 LLP 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 LLP is considered a qualifying entity under the FRS 101 and 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 4. The Members have prepared cashflow forecasts which take into account the fact that the LLP has a service provision agreement in place with Scottish Borders Council until March 2020. These cashflow forecasts indicated that the LLP has adequate resources to continue in operational existence for the foreseeable future. In addition the members have received a guarantee for SB Cares pension liability from Scottish Borders Council which has the effect of covering the obligations that create the net liability position. 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*

The restatement of the number of employees has been undertaken for 2016/17. The previously stated amount was 501 FTE. The reason for the increase is that the figure disclosed in the 2016/17 Financial Statements did not include the significant number of hours paid to existing employees and relief staff which due to the nature of the LLP's operations is material.

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

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
Total Debtors	429	408

Notes to Annual Accounts *(continued)*

5 Creditors: Amounts falling due within One Year

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

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 its incorporation and a guarantee relating to the pension liability is in place from the Council to the LLP which has the effect of ultimately transferring the risk of underfunding of pension liabilities to Scottish Borders Council.

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.

All of the above risks identified above could result in the Fund being insufficient to meet the full benefit liabilities due to the LLP's employees when they retire. The legal agreements in place around the incorporation of the LLP and the guarantee for the pension liability from Scottish Borders Council means that in the event that there is a funding gap, and the LLP has insufficient funds to meet these, the Council will be required to cover these.

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.

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

Curtailments

The cost of curtailments arising as a result of the payment of unreduced pensions on early retirement are 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.

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
Net Pension Liability	(3,624)	(4,347)

	Year to 31 March	
	2017 £000	2018 £000
Movements in Present Value of Defined Benefit Obligation:		
Opening Defined Benefit Obligation	3,184	8,864
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)
Closing Defined Benefit Obligation	8,864	13,285

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

	Year to 31 March	
	2017 £000	2018 £000
Movements in Fair Value of Plan Assets:		
Opening Fair Value of Plan Assets	2,187	5,240
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)
Closing Fair Value of Plan Assets	5,240	8,938

	Year to 31 March	
	2017 £000	2018 £000
Recognised in the Profit and Loss Account		
:		
Service Cost	2,784	4,057
Interest on Defined Benefit Pension Plan Obligation	5	77
Administration Expenses	1	2
Recognised Pensions Service Costs	2,790	4,136
Re-measurements in Other Comprehensive Income:		
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)
Re-measurements of Net Assets / (Defined Liability)	(1,596)	1,602

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

<i>The Fair Value of the Plan Assets and the Return on those Assets were as follows:</i>	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	-	-	50	1
Total Estimated Fair Value of Plan Assets	5,240	100%	8,938	100%

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

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

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

Opinion

We have audited the financial statements of Scottish Borders Cares LLP ("the LLP") for the year ended 31 March 2018 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Net Assets Attributable to Members and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Independent Auditor's Report to the Members of Scottish Borders Cares LLP (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit[; or
- the members were not entitled to prepare financial statements in accordance with the small limited liability partnerships' regime.

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page 14, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of Scottish Borders Cares LLP (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Reference and Administration Information

Company Name Scottish Borders Cares LLP

Company Registration Number SO305156

Registered Office Council Headquarters
Newtown St Boswells
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Scottish Borders
TD6 0SA

Statutory Auditor KPMG LLP
Chartered Accountants
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Bankers Bank of Scotland
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Actuary Barnett Waddingham LLP
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G2 2JJ

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day services home care care homes independent living

SB CARES Bristol Building Newtown St Boswells Melrose TD6 0SA
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SB CARES is the trading name of Scottish Borders Cares LLP (SO305156) and Scottish Borders Supports LLP (SO 305176).
Both bodies are Limited Liability Partnerships working with Scottish Borders Council to provide Adult Social Care Services.



Scottish Borders Council Pension Fund

annual report and annual 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

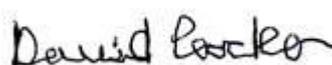
The three yearly valuation of the pension fund undertaken by the fund Actuary Barnet Waddingham at 31 March 2017 showed the fund was 114% funded. This was an increase on the 101% funding level returned at 31 March 2014.

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

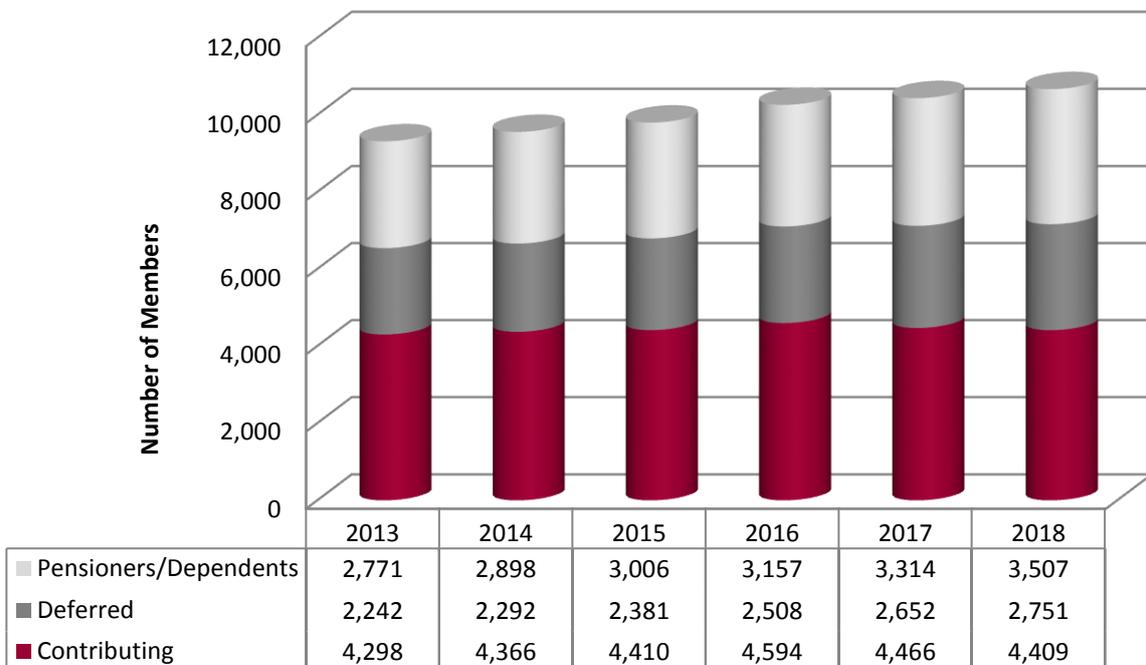
- £684.6m Net Assets, an increase of £30.2m on 2016/17
- Strong performance return of 5.6% for 2017/18 and 8.6% for the rolling 3 year period
- Fund continues to meet its strategic investment return benchmark.
- Continued sound governance of the Fund and good engagement of Members in the training programme
- 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:

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

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.

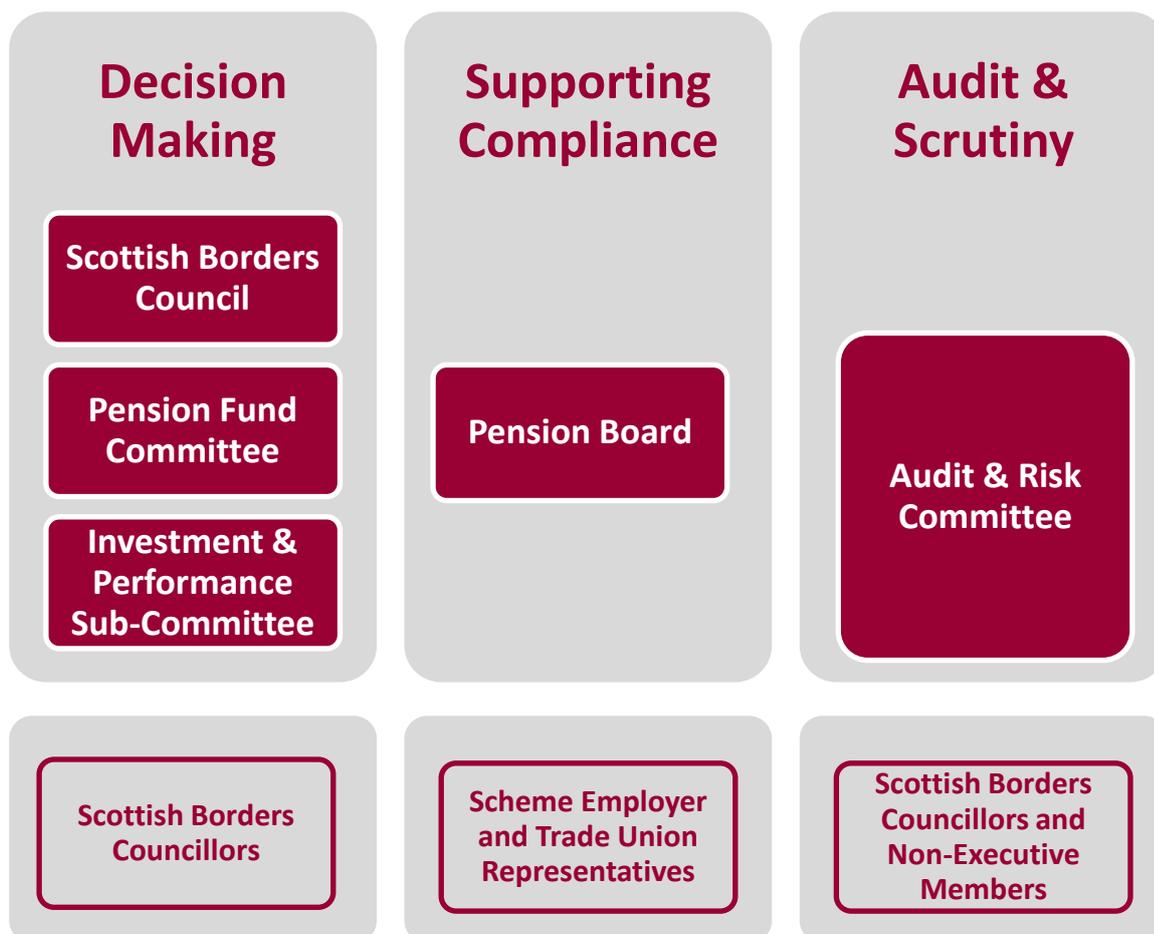
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

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

<i>Pension Fund Board</i>		Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
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.

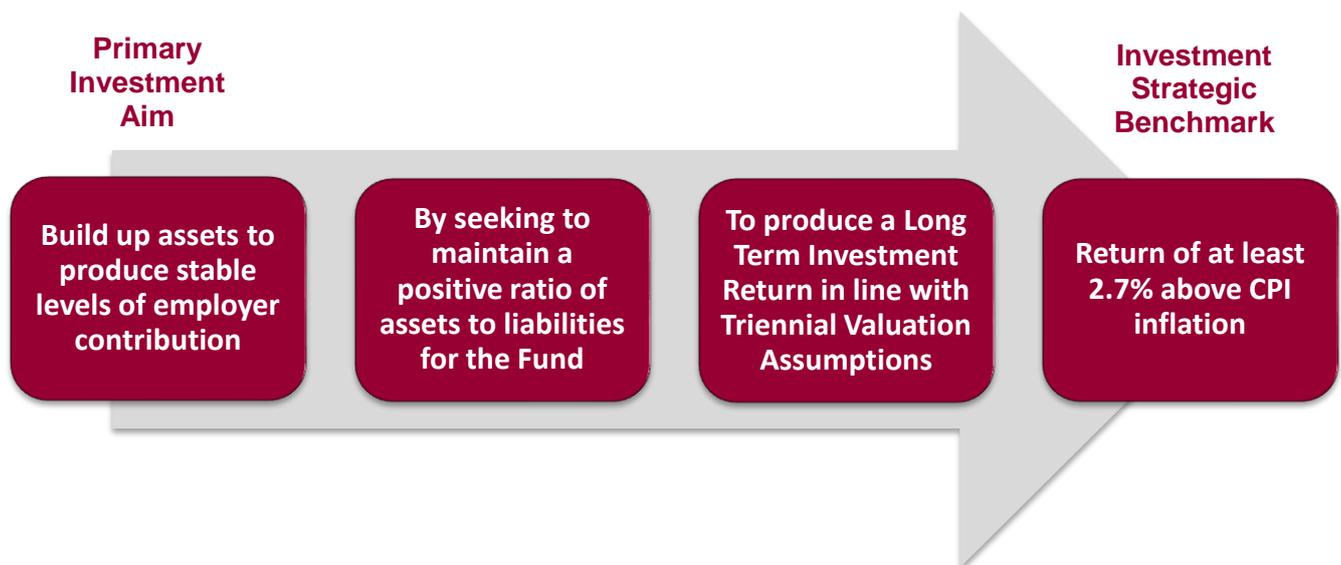
- ***2016/17 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications.***
- ***Completion of Communication Strategy and launch of Pension Fund website***
- ***Completion of 2017 Triennial Valuation***
- ***Full funding of Index Linked and Long Lease Property 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.

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. 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
Total	100.0	100.0	100.0

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 drawn 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

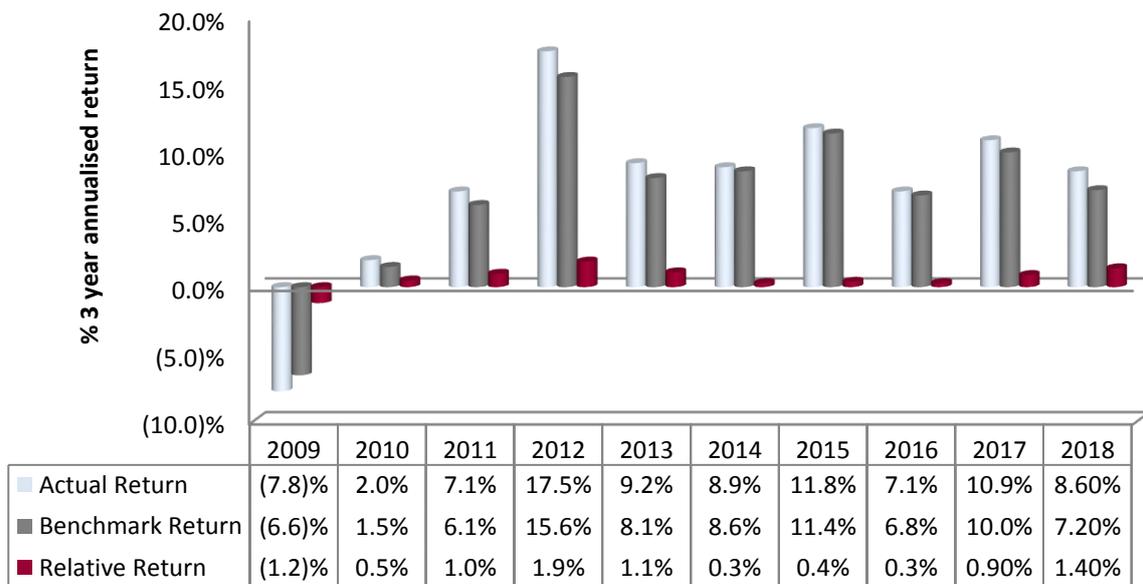
During 2017/18 equities continued to experience strong levels of growth despite the global political events. Over the 1 year rolling period a positive return was experienced in Equities both UK and Global. The 3 year rolling period also provided positive growth. The factors affecting the markets were:

- 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 ¹ %	Fund %	Bench ¹ %
Total Fund excluding Currency Hedging	5.6	3.4	8.6	7.2
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:

¹ **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 pool 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)	573.3
Smoothed Asset Value	384.8	490.5	(653.9)
Surplus/ (Deficit)	(17.4)	2.9	80.6
Funding Level	96%	101%	114%

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 Pension Funds website: <http://scottishborderscouncilpensionfund.org/>

MANAGEMENT COMMENTARY

Pensions Administration Update

2017/18 in Numbers

- 18 Scheme Employers
- £21.5m of Pension and Other Benefits paid during year
- £19.4m of Contributions Received from 4,409 Active Members and their Employers
- 6,575 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 Teachers' 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
Scheduled Bodies:				
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
	3,406	3,249	2,468	9,123
Active Admitted Bodies:				
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
	1,003	217	259	1,479
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
BC Consultants	-	15	16	31
Others	-	24	4	28
	-			
Total	4,409	3,507	2,751	10,667

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%
Total Estimates	962		

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%
Total	1,050		2,066	

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 th of Month)	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	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

25 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.

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 (pages 19 – 23).

Councillor David Parker
Chairman
Pension Fund Committee
25 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
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The Pensions Board (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 Investment and Performance Sub-Committee (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.
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee 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
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. 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.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint 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.
Access			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.

Principle		Full Compliance	Comments
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	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
RED -Very High (15-25)	3 monthly reviews of action progress throughout the year
AMBER – High (6-12)	6 monthly review
GREEN – Low (1-5)	Annual review

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

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	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
Total Number of Risks	10	33	0	1	19	23

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

25 September 2018

David Robertson (CPFA)
Chief Financial Officer
Scottish Borders Council

STATEMENT OF ACCOUNTS 2017/18 FUND ACCOUNT

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

NET ASSETS STATEMENT as at 31 March

2017 £'000		2018 £'000	Notes
	Investment Assets		
257,512	Equities	236,164	17
	Managed Funds:		
32,169	Property	95,449	
105,284	Global Equities	86,029	
74,744	UK Equities- Passive	63,852	
20,379	Bonds	34,622	
42,814	Diversified Fixed Income	64,570	
110,322	Alternatives	81,494	
1,825	Open Ended Investment Contracts	1,650	
	Infrastructure	2,313	
9,665	Cash Deposits	17,805	
654,714	Total Investment Assets	683,948	
1,355	Other Investment Balances	991	
	Current Assets & Liabilities		
251	Contributions due from Employers	204	
172	Other Current Assets	1,373	22
(2,099)	Other Current Liabilities	(1,933)	23
1,186		(356)	
654,393	Net Assets	684,583	

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 25 September 2018.

David Robertson CPFA
Chief Financial Officer
25 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
Pension	Each year worked is worth 1/80 th x final pensionable salary	Each year worked is worth 1/60 th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A one off payment of £12 is paid for each £1 of pension given up.

From the 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 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 £1.104m (2016/17 £1.037m). During the year contributions in totalled £0.179m, while payments out of the AVC fund totalled £0.108m. 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.

Accounting Standards that were issued but not yet adopted.

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Four standards have been issued but not yet adopted:

- IFRS 9 (Financial Instruments).
- IFRS 15 (Revenue from Contracts with Customers) (Amendment) (Clarification).

- IAS 12 (Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses) (Amendment).
 - IAS 7 (Statement of Cash Flows; Disclosure Initiative) (Amendment).
- We do not expect any of these to impact on the Pension Fund.

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"> - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and

		- A 0.25% increase in assumed life expectancy would increase the deficit by £3.9m <i>Source – Triennial Valuation 2017</i>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have a observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is however a degree of estimation involved in the valuations.	The total assets held in level 3 £148.7m and include Private Credit, Property, Infrastructure and Alternatives. 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	13,631	4,493	18,124
202	-	202	Special/Pension Fund Strain	1,209	-	1,209
-	30	30	Additional Voluntary	-	32	32
13,829	4,544	18,373	Total	14,840	4,525	19,365

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
19,986		21,548

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
19,986	18,373	Total	21,548	19,365

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
1,690		641

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
3,555	Total	8,717

13(a) INVESTMENT MANAGEMENT EXPENSES

2016/17 £'000		2017/18					Total £'000
		Equities £'000	Pooled Invest- ments £'000	Pooled Property £'000	Private Equity £'000	Diversifies Alternatives £'000	
2,878	Management Fees	999	1,459	203	49	1,077	3,787
-	Performance Related Fees	-	75	-	-	-	75
59	Custody Costs	51	5	-	-	9	65
102	Transaction Costs	383	201	3607	-	5	4,196
12	Other Fees	-	-	-	1	68	69
3,051	Total	1,433	1,740	3,810	50	1,159	8,192

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
8,292		8,195

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

2016/17 £'000		2017/18 £'000	
17,514	Realised	79,179	
92,584	Unrealised	(45,462)	
110,098		33,717	

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
			Investment Assets			
53,293	204,219	257,512	Equities	36,673	199,491	236,164
			Managed Funds:			
32,169	-	32,169	Property	95,449	-	95,449
76,569	105,284	181,853	Equities	63,852	86,029	149,881
20,379	-	20,379	Bonds	34,622	-	34,622
-	42,814	42,814	Diversified Fixed Income	-	64,570	64,570
-	110,322	110,322	Alternatives	-	81,494	81,494
-	-	-	Open Ended Investment	1,650	-	1,650
-	-	-	Infrastructure	1,478	835	2,313
-	-	-	Derivative Contracts	-	6	6
8,333	1,332	9,665	Cash Deposits	13,441	4,364	17,805
-	-	-	Investment Income Due	318	928	1,246
-	-	-	Amounts receivable for sales	-	481	481
190,743	463,971	654,714	Total Investment Assets	247,483	438,198	685,681
			Investment Liabilities			
-	-	-	Derivative	-	-	-
			Amounts payable for purchases		(742)	(742)
190,743	463,971	654,714	Net Investment Assets	247,483	437,456	684,939

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
	645,049	215,014	(221,178)	27,263	666,148
Other Investment Balances					
Cash Deposits	9,665			(408)	17,805
Amount receivable for sales	-			2	481
Investment Income due	1355			-	1,246
Spot FX Contract	-			94	-
Amount Payable on Purchase	-			(4)	(743)
Net Investments	656,069			26,947	684,939

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 single change being the 50% reduction in Diversified Alternatives and the £57m investment in Long Lease property and £31.8 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 2018	£'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	820	0.1
653,207	100.00			684,939	100.0

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.

1. 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.
2. 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.
3. 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	£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)
Net Investment Assets	491,115	45,083	148,741	684,939

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	£000's
Designated as fair value through fund account	494,027	34,427	116,547	645,001
Loans & receivables	6,099	5,015	38	11,152
Financial liabilities at fair value through fund account	-	(1,490)	-	(1,490)
Net Investment Assets	500,126	37,952	116,585	654,663

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		63,894	-	(2,147)		64,918
Private Equity	3,054	(1,882)	-	-	(1,171)	-	1
Infrastructure			2,394	(42)	(39)	(1)	2,312
Total	116,547	(1,882)	88,685	(53,281)	(11,191)	9,847	148,725

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Sales during the year reflect the 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
Total		148,725	168,308	129,144

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
			Financial assets			
257,512			Equities	236,163		
256,635			Pooled Investments	282,532		
32,169			Pooled Property Investments	95,449		
			Infrastructure	2,313		
98,733			Diversified Alternatives	49,685		
			Derivative Contract	8		
	9,665		Cash		17,807	
170			Other Investment balances	1,246		
104			Debtors	481		
645,323	9,665	-		667,877	17,807	
			Financial Liabilities			
			Derivative Contract	(2)		
			Other investment balances			
		(325)	Creditors			(743)
-	-	(325)		(2)	-	(743)
645,323	9,665	(325)	Total	667,875	17,807	(743)
	654,663				684,939	

NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

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
Property	9.9
Alternatives	14.5
Cash	1.0

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	14.5	177,097	132,654
Cash	768	1.0	776	761
Total Assets Exc. Currency Hedge	684,939		801,822	568,057

*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	-
	72,858	17,807

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
Total	463,972	404,137

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
Total Currency *	247,137		274,259	220,017

* 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 £0.64m (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
Money Market Accounts			
Aberdeen	AAA	505	5
Standard Life	AAA	505	5
Blackrock	AAA	505	5
Federated	AAA	505	5
Bank Current Accounts			
Bank of Scotland	A	1,507	620
Total		3,527	640

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	-	-
Total	172	1,373

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
Total	172	1,373

23 CURRENT LIABILITIES

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

Analysis of Creditors	As 31 March 2017 £'000	As 31 March 2018 £'000
Central government bodies	-	-
Other local authorities	211	-
NHS bodies	12	75
Public corporation & trading funds	-	-
Other entities & individuals	1,876	1,858
Total	2,099	1,933

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	-
88	Total	89

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. 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 £80.64m. The following table summarises the funding position.

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

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 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 S2PA 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/(Liability) as at:		
	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m
Present value of the defined benefit obligations	(696.9)	(906.9)	(843.9)
Fair Value of Fund Assets* (bid value)	542.7	652.7	685.2
Net Asset/(Liability)	(154.2)	(254.2)	(158.7)

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	2.55
Retail Price Inflation (RPI)	3.3	2.7	3.7
Pay Increases – Long Term	4.2	3.7	3.3
Pension Increases	2.4	2.7	2.3

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.

28 CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

29 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Chief Financial Officer on 26 June 2018. Events taking place after this date are not reflected in the financial statements or notes. There have been no material event since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

The Fund has received updated Private equity/Infrastructure statements for 31 March 2018. The variance between the valuation included in the accounts and the updated statements amount to £0.9m. The amount is not material and therefore no adjustment has been made in the Net Asset Statement or notes.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the annual report and accounts

Opinion on financial statements

I certify that I have audited the annual accounts in the annual report and annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Fund Account, the Net Assets Statement and notes to the statement of accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

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

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the annual accounts is not appropriate; or
- the Chief Financial Officer has not disclosed in the annual accounts any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Financial Officer and the Scottish Borders Council Audit and Scrutiny Committee for the annual accounts

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

In preparing the annual accounts, the Chief Financial Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Audit and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the annual accounts

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

A further description of the auditor's responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

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

In connection with my audit of the annual accounts, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion matters prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the annual accounts are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2018



**SCOTTISH BORDERS COUNCIL
PENSION FUND
STATEMENT OF
INVESTMENT PRINCIPLES
2017**

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2017.

1. The statutory requirements concerning the SIP

1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed¹
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending¹

1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²and
 - The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

² Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

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

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

Funding Objectives

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

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

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

4. Investment Policy

Investment Strategy

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

Investment Management Arrangements

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

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

Risk Measurement and Management

4.19 *Asset Allocation*

- 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 out performs their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

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

Note:

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

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

Appendix 4

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
UK Equity	UBS	Benchmark Return	+0.0%	FTSE All-Share Index
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Global Equity	Harries Associates	Benchmark Return	+2.5%	MSCI All Country World Index
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index
Bonds				
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month LIBOR
Govt Fixed Interest Bonds	M&G	Benchmark Return	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
Corporate Fixed Interest Bonds	M&G *	Benchmark Return	+0.8%	iBoxx Sterling Non-Gilts Index
Index Linked Gilts	TBC	TBC	TBC%	TBC
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	LIBOR
	Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
	Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
	Infrastructure		+3.5%	RPI
Property	UBS	Benchmark Return	+0.75%	IPD UK PPFI All Balanced Funds Index
	Blackrock	Benchmark Return	+2.5%	RPI

Statement of Compliance with Myners Principles

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

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

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

Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. 	<p>Full compliance</p> <ul style="list-style-type: none"> 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. 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. An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. The Committee regularly reviews the investment

Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives (contd)</p>	<ul style="list-style-type: none"> • Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. 	<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"> • 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. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<ul style="list-style-type: none"> The committee should have a clear policy on willingness to accept underperformance due to market conditions. Acceptable tolerances from market index benchmarks returns should be stated. Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. Overall fund objectives should be expressed in terms which relate to the liabilities. The committee must receive an assessment of the risks associated with their liabilities, valuation and management. The annual report should include an overall risk assessment. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. The overall Fund investment objective is expressed in terms which relate to the liabilities. The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. It has agreed to undertake a similar review during 2017 following the 2017 Actuarial valuation.. The annual report includes a Risk Management Statement

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

Principle	Best Practice Guidance	Fund's Current Status
<p>4. Performance Assessment</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. 	<p>Investments</p> <ul style="list-style-type: none"> • The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. • The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. • Constraints on active managers should not be overly narrow or overly wide. • Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. • Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. <p>Advisers</p> <ul style="list-style-type: none"> • Assessment should take account of the extent of decisions delegated. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods. • The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. • The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.

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

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

	responsibilities of Institutional shareholders should be noted.	
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Principle	Best Practice Guidance	Fund's Current Status
<p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate. 	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance.

VERSION CONTROL TABLE

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

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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

- **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, 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

Actuaries:	Barnett Waddingham
Auditors:	Audit Scotland
Bankers:	Bank of Scotland
Investment Consultancy:	KPMG
Investment Custodians:	Northern Trust

Investment Managers

Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group, Permira, Blackrock and Harris Associates

Additional Voluntary Contributions (AVC) Managers: Standard Life

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

Graeme Wilson	Telephone 01835 – 824000	Ext 5341
	E-mail gwilson@scotborders.gov.uk	

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at:
www.scottishborderscouncilpensionfund.org

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

Kirsty Robb	Telephone 01835 – 825249
Pension & Investment Manager	E-mail krobb@scotborders.gov.uk

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

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NATIONAL PERFORMANCE REPORT BY AUDIT SCOTLAND

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

25 September 2018

1 PURPOSE AND SUMMARY

- 1.1 **To review the Accounts Commission's report (March 2018) on a significant fraud at Dundee City Council in 2016/17 and consider any implications for Scottish Borders Council.**
- 1.2 The Accounts Commission report prepared by Audit Scotland highlights that it is the responsibility of Management to ensure that controls are in place and that these will be reviewed by External Audit. The Accounts Commission and Audit Scotland national reports are published which are designed to share best practice and lessons learned.
- 1.3 Scottish Borders Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.
- 1.4 Section 4 of this report compares the Accounts Commission's findings in relation to Dundee City Council with the processes, procedures and practices at Scottish Borders Council to provide assurance to this Committee.

2 RECOMMENDATIONS**2.1 I recommend that the Audit and Scrutiny Committee;**

- (a) **gains assurance that Scottish Borders Council is aware of the issues that the Accounts Commission has highlighted and has controls in place; and**
- (b) **acknowledges that Scottish Borders Council has adopted the Scottish Government's Fraud Maturity model as a means of self-assessment and will continue to develop counter fraud measures under the direction of the Corporate Fraud Steering Group in line with the Council's Corporate Fraud Policy and Strategy.**

3 BACKGROUND

- 3.1 The Accounts Commission published a report in March 2018 "2016/17 Audit of Dundee City Council: Report of a significant fraud" prepared by Audit Scotland. A summary of the report is set out below which is designed to share best practice and lessons learned.
- 3.2 In 2016/17 Dundee City Council (DCC) discovered a complex long term fraud which was being perpetrated by a member of staff who embezzled £1.65M over a period from August 2009 to May 2016.
- 3.3 The fraud was committed by an IT specialist with over 30 years' experience and was able to use his detailed knowledge of DCC's systems and unrestricted access to several systems to remain undetected for a considerable period of time.
- 3.4 This allowed him to insert 57 false invoices purporting to be from existing large construction suppliers. He was able to set payment details on those invoices to bank accounts which were under his control. The fraudulent data was inserted into the interface flat files which the member of staff edited manually while moving them between directories.
- 3.5 The false invoices appeared in the financial systems from two sub-systems, the main one being a bespoke construction system which is similar to Scottish Borders Council's Servitor system, and the second one is Tranman (Civica) which is a fleet management system that is also used by Scottish Borders Council.

4 SUMMARY OF ACCOUNTS COMMISSION REPORT FINDINGS

The details set out below compares the accounts commission's findings in relation to Dundee City Council with the processes, procedures and practices at Scottish Borders Council to provide assurance to this committee.

	Dundee City Council (DCC)	Scottish Borders Council (SBC)
4.1	There was insufficient division of duties specifically in the system administration roles.	Good segregation of duties within Tranman, Servitor and Business World systems. Specifically, the controls on access to payment details within Business World system are strong.
4.2	Reconciliations were not effective or not carried out.	Good reporting and reconciliation on the Servitor system interface but it does require monitoring. Reconciliation is not robust on the Tranman system. Compliance checking is planned in the action points mentioned at 5.1 below.
4.3	Procedures were not documented.	Systems support staff have a good level of understanding of the processes but they are not well documented. This is scheduled as part of the ongoing Business World system development work (Milestone 7).
4.4	Budget monitoring was not carried out or was not effective.	Budget Monitoring reports are presented to Executive Committee on a quarterly basis.
4.5	A Fraud Response Plan is required.	There is a Fraud Response Plan that incorporates the good practice identified in the Accounts Commission's

report. Work is ongoing to raise awareness of how to respond to suspected fraud.

- 4.6 Assessment of vulnerabilities should be carried out. Counter Fraud Strategy (2015) adopted the Scottish Government's Fraud Maturity model and members of staff are carrying out Fraud Vulnerability Assessments in key services areas. These are included in the action points mentioned at 5.1 below.
- 4.7 Fidelity Insurance is essential. There is an insurance policy in place and there is compliance with the conditions in that policy.
- 4.8 Integrity groups should be established. The functions described in the Accounts Commission's Report are provided by an officer Corporate Fraud Steering Group.

5 NEXT STEPS

- 5.1 A detailed review of the interface between Tranman, Servitor and Business World systems has been carried out in the light of the Accounts Commission's recommendations and a short list of action points will be implemented.
- 5.2 Fraud vulnerability assessments have been carried out in the areas of Fleet Management and SB Contracts. Compliance testing will be carried out to ensure that controls are effective.
- 5.3 Fraud awareness training has been arranged for Managers in Fleet Management service and SB Contracts as part of the ongoing programme across the Council.

6 IMPLICATIONS

6.1 Financial

The Council is committed to minimising the risk of loss due to fraud, theft or corruption by putting in place effective internal control systems designed to prevent and detect fraud and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. This includes the operational costs of resourcing the Corporate Fraud and Compliance Officer (1 FTE) within the Audit & Risk service. There are no significant additional costs anticipated as a result of these recommendations.

6.2 Risk and Mitigations

- (a) There is a risk that managers are not aware of fraud issues or due to competing demands on resources, do not engage with fraud prevention.
- The steps in the Counter Fraud Maturity Model should raise awareness across the organisation.
 - The requirement to carry out Fraud Vulnerability Assessments will be promoted with Senior Managers across all service areas.
- (b) There is a risk that frauds will not be detected.
- Management and Members need assurance that controls are adequate to detect fraudulent activity. If significant amounts of fraud or error are not found but the fraud detection measures

have been utilised properly, this gives assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.

- (c) There is a risk that Managers will not take action against members of staff when fraud is identified for fear of criticism or reputational damage to their service or the Council.
 - Managers must have confidence in the investigation process and successful investigations should be communicated.
 - A Fraud Response Plan has been provided so that managers are informed about what steps are appropriate.
- (d) There is a reputational risk for the Council if its internal control, risk management and governance arrangements are assessed by external audit and other inspection bodies as inadequate.
 - This report is evidence that risks are been identified and are being mitigated.

6.3 Equalities

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

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

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

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
David Robertson	Chief Financial Officer Tel: 01835 825012
Gary Smith	Counter Fraud and Compliance Officer Tel: 01835 826573

Background Papers: "2016/17 Audit of Dundee City Council: Report of a significant fraud 2016/17" Accounts Commission (March 2018)

Previous Minute Reference: Audit and Scrutiny Committee 26 June 2018

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INTERNAL AUDIT WORK TO JULY 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

24 September 2018

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**
- 1.2 The work Internal Audit has carried out in the period from 2 April to 27 July 2018 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of two Final Internal Audit Reports have been issued. There were two recommendations made relating to one of the reports which have been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 An outline of the progress on current Internal Audit assurance work and details of specific Internal Audit consultancy and other work carried out during the period is included in this report.
- 1.5 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 1.6 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for the Councils' Heads of Internal Audit, is shown in Appendix 2 to this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 2 April to 27 July 2018 associated with the delivery of the approved Internal Audit Annual Plan 2018/19;**
 - b) Notes the Internal Audit consultancy and other work undertaken in this period; and**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 2 April to 27 July 2018, associated with the delivery of the approved Internal Audit Annual Plan 2018/19, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Performance Management: Local Government Benchmarking Framework (LGBF)
 - Resilience Planning
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

- 3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2018/19 consists of the following:

Audit Area	Audit Stage
Passenger Transport	Drafting the report
ICT Security	Testing Nearly Completed
Adult Social Care - Self Directed Support	Testing Nearly Completed
Selkirk Conservation Area Regeneration Scheme (CARS)	Testing Nearly Completed
Licensing	Testing Nearly Completed
Financial Planning	Testing Underway
Workforce Planning	Testing Underway
EU Funded Programme – LEADER	Testing Underway
EU Funded Programme – EMFF	Testing Underway
Corporate Transformation Programme	Testing Underway
Winter Service	Testing Underway
Capital Investment	Audit Assignment issued

Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.7.1 Follow-up work regarding the Carbon Reduction Programme to ensure that the Council's submission to the Department of Energy and Climate Change for carbon emissions was delivered on time; that updates to the Evidence Pack regarding the Council's structure, organisation and estate are maintained; and that progress continues with the Council's Energy Efficiency Schemes. No direction has yet been received on the future of the Carbon Reduction Commitment Programme when this current phase ends in March 2019.
- 3.7.2 Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, and Business World ERP Project Board.
- 3.7.3 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and that risk reviews take account of improvements arising from audit work.
- 3.7.4 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

Recommendations

- 3.8 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.9 The table below summarises the number of Internal Audit recommendations made during 2018/19:

	2018/19 Number of Recs
High	0
Medium	2
Low	0
Sub-total reported this period	2
Previously reported	0
Total	2
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
Total	0

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2017

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2017 is attached at Appendix 2 for information.
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- 4.3.1 The Group considers learning and development needs and procures training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training courses;
- 4.3.2 Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment against the Public Sector Internal Audit Standards (PSIAS); and
- 4.3.3 Sub-groups are in place to deliver specific remits e.g. the Computer Audit Sub-Group (CASG) and the Counter Fraud Sub-Group (SLAIG).
- 4.4 The Chief Officer Audit and Risk has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Senior Internal Auditors is a member of CASG, and the Corporate Fraud and Compliance Officer is a member of SLAIG; thus attend those Sub-Group regular meetings. All Internal Audit team members attended all or part of the SLACIAG Conference in June 2017, which had the theme of 'Transformation and the Role of Internal Audit', to hear from a range of engaging and entertaining speakers and participate in workshops.

- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Scrutiny Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

There are no costs attached to any of the recommendations in this report.

5.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
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Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management (LGBF)</p> <p>No: 016/012a</p> <p>Date issued: 14 September 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to validate the Council’s Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>We tested the 11 PIs figures for the 2017/18 submission under 4 headings (Corporate; Corporate Assets; Culture & Leisure; and Environment) to ensure the LGBF guidance was followed, that arrangements are in place to collect the required data, and that data gathered could be agreed back to source systems.</p> <p>Our validation testing did find anomalies with data provided for 4 of the indicators, some of which were data transcribing issues and have been resolved. More significant anomalies were queried with Live Borders regarding the figures submitted for Culture and Leisure. All queries raised were subsequently corrected (where applicable) and the LGBF return was updated prior to submission to the Improvement Service by the August 2018 deadline. Internal Audit considers the figures provided and reported in the LGBF for 2017/18 to be reasonable and accurate. The individual data collection methods applied by the Services are suitable and appropriate with the majority of Services having adequate validation / quality assurance mechanisms in place.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place.</p> <p>We have made the following recommendations to improve validation of performance indicators in specific areas:</p> <ul style="list-style-type: none"> • A review of the Live Borders recording and reporting system (Gladstone) should be carried out to ensure that accurate and robust information is provided for performance and management reporting. (Medium) • As above for Berwickshire Recreation Education Sports Trust (Medium) 	0	2	0	<p>Management have confirmed factual accuracy of the report, accepted report findings, and agreed to implement the recommendations.</p> <p>Further Internal Audit work relating to Performance Management across all Council services will continue during the year including sample testing of the PIs reported against the Council’s 8 corporate priorities.</p>

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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Resilience Planning</p> <p>No: 054/003</p> <p>Date issued: 16 July 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities' initiative, post incident reviews, and lessons learned.</p> <p>Local authorities have a number of duties placed on them by the Civil Contingencies Act 2004 (Contingency Planning) (Scotland) Regulations 2005. Scottish Borders Council has duties as a Category 1 responder under this Act, including: assess risk; maintain emergency plans and business continuity plans; promote business continuity; and communicate with the public.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • An annual presentation is given to Members to ensure they are aware of the latest information about the service Emergency Planning provides, e.g. post incident reviews covering actions and responses, roles and responsibilities. • Post Incident debriefs and annual presentations are held to encourage new resilient communities to come on board, covering various different aspects to enable them to respond to a range of different scenarios that they may face. <p>The existing Business Continuity (BC) system is out of date and no longer supported. It is in the process of being updated. The new BC system is at the 'design and build' stage which will then require data migration of existing BC Plans and training provision to named plan holders, which will enable compliance monitoring and reporting by the Emergency Planning service.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement, such as updating the BC system, as current arrangements could undermine the achievement of objectives. We have made no recommendations at this time as there are Management actions underway to mitigate the risks.</p>	0	0	0	Management have confirmed factual accuracy of the report and have accepted report findings.

ANNUAL REPORT FROM THE CHAIR – 2017

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2018.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2018

- 2.1 SLACIAG met four times during 2017:
- 24 March 2017 – hosted by West Lothian Council;
 - 15 & 16 June 2017 – West Park Centre, Dundee;
 - 8 September 2017 – hosted by CIPFA Scotland; and
 - 24 November 2017 – hosted by Glasgow City Council.
- 2.2 All of the meetings were very well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing at a time of such significant change across Local Government generally and for Internal Audit in particular. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Heads of Internal Audit.
- 2.3 As usual, the Group held its Annual General Meeting in March 2017. All office bearers and committee members appointed in 2016 continued throughout 2017. The Treasurer presented the draft annual accounts which were approved for audit. The Group's healthy financial position allowed the subscription rates to be held at the current level for the following year and enabled a variety of training opportunities to be provided along with subsidised delegate fees for the 2017 Conference, promoting maximum attendance.
- 2.4 As well as allowing the Group to conduct its AGM business, the March meeting provided the consider some topical themes including presentations from Debra Allison and Evelyn Orr on the role of the Office of the Public Guardian and a case study which illustrated their role in carrying out investigations. Brian Taylor, provided an outline of the Scottish Government's Counter Fraud Maturity Model and Ken Macdonald from the Information Commissioner Scotland provided an overview of the new General Data Protection Regulations (GDPR).

- 2.5 At the September meeting the Group heard from Paul Dick, Information Security Officer at Perth and Kinross Council in relation to cyber security and the Scottish Governments proposal for Councils to comply with the 'Cyber Essentials +' programme as a single standard across the public, private and third sectors. Nicola Irvine-Brown, Policy Lead – Performance and Quality for Renfrewshire Council presented on the Council's recent experience of completing the new Best Value Audit regime and David Mitchell, Chief Governance Officer at East Ayrshire Council presented on the Council's work in response to the threat of serious and organised crime in the areas of procurement and licensing.
- 2.6 SLACIAG's biennial conference on 15 and 16 June 2017 in Dundee, which had the theme of 'Transformation and the Role of Internal Audit' was very positive and productive. Over the 2 days around 80 day and residential delegates, including Heads of Internal Audit and members of their teams heard from a range of engaging and entertaining speakers and participated in workshop sessions aimed at exploring important current issues in internal audit and counter fraud in more detail.
- 2.7 The conference was opened by our keynote speaker, Steven Kyle, Change Programme Manage for Dundee City Council was followed by a presentation on ALEOs by Peter Worsdale from Audit Scotland, Stewart Turner Speakers at the conference presented on the Ayrshire Roads Alliance and Siobhan White, Glasgow Caledonian University presented on Audit Committees. On day 2 Detective Inspector Ricky Hutton, Police Scotland presented on the work Police Scotland are doing in relation to the Safer Communities agenda.
- 2.8 Workshop sessions included, Audit Committees Internal Audit resources and delivery models, GDPR and the Counter Fraud Maturing model, where delegates sought practical solutions to challenging questions.
- 2.9 The November meeting allowed the group to hear a presentation from John Butcher, Executive Director of North Ayrshire Council in relation to the various reforms being introduced by the Scottish Government to address the attainment gap. Kenney Meechan, Head of Asset Governance of Glasgow City Council provided the group with a further presentation on GDPR from a practitioner view to implementation and Jacqui Greenless from the Improvement Service presented on the Local Government Benchmarking Framework and in particular how auditors could use the new online analysis tool.
- 2.10 In line with the Group's objectives representatives of the group participate in CIPFA's Internal Audit Special Interest Group to develop further engagement with the internal audit community across the country, a workplan based around 6 main themes has been developed and will be taken forward by participants of the special interest group.
- 2.11 The group conducted a training needs analysis including feedback from each of the sub-groups. Three training events were scheduled for the 'Introduction to Internal Audit' course with the first course being held during the year receiving good feedback from delegates and for 'Essentials of Internal Audit', further training events are planned for next year.
- 2.12 There are 25 councils currently participating in the SLACIAG peer review approach to External Quality Assessment (EQA) to meet the 2013 Public Sector Internal Audit Standards requirement that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. The majority of the reviews are either completed or ongoing. The group will undertake a review of the process including lessons learned during 2018.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings, which are hosted by Councils, continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.

3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. In the past year, presentation topics have included: Secure emails, virtual desktops, PCI-DSS, Cyber security, Information security and security aspects of Office 365.

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum and there is regular engagement with the Crown Office and Procurator Fiscal Service (COPFS). The absence of statutory offences and the reliance on common law offences has been discussed with COPFS and representations have been made to the Scottish Government to consider legislative powers similar to those available to Local Authorities in England.

4.2 Pilot initiatives with the DWP in relation to joint working with Local Authorities are continuing with specific areas of interest being in relation to council tax reduction scheme (CTRS) fraud and tenancy fraud. West Dunbartonshire Council are the lead for these pilot initiatives.

4.3 Developments have been progressed in relation to an information sharing protocol for use by all Local Authorities and this is with SOLAR for approval. Inter authority benchmarking is also in the early stages of being developed.

4.4 The Group has heard from speakers on topics of interest such as waste management and serious and organised crime delivered by SEPA, sharing of good practice with NHS Counter Fraud Services, money laundering and other emerging threats delivered by Police Scotland and work being undertaken by other Local Authorities in relation to specific fraud risks and initiative.

5. SUMMARY

5.1 In summary, SLACIAG has had another very successful year, and I believe that, individually and collectively, the Group will continue to be at the forefront of developments, is well positioned to meet the considerable challenges of the future, and that our voice will continue to be heard as experts in matters of risk management, governance and control. Group members, in their Authorities, will continue to adapt as necessary to support their Board and Executive Management Teams to maintain delivery of well governed services in the context of reducing resources and significant transformation.

5.2 Finally, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my second and final year as Chair, and wish the Group every success for the future.

Andrea McMahon (Chief Auditor, Renfrewshire Council)

Chair of SLACIAG

14 June 2018

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