

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE MONDAY, 23 SEPTEMBER 2019

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBERS. COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 23 SEPTEMBER 2019 at 10.15 am.

As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting. The main focus will be an opportunity for Members to discuss matters with the External Auditors in private and to obtain feedback on its performance from the External Auditors (the latter was an area of improvement identified during the Committee's self-assessment 2018/19).

J. J. WILKINSON,
Clerk to the Council,

16 September 2019

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	SCRUTINY BUSINESS	
5.	Minute. (Pages 5 - 8) Minute of Meeting of the Audit and Scrutiny Committee held on 22 August 2019 to be approved and signed by the Chairman. (Copy attached.)	5 mins
6.	Any Other Scrutiny Items Previously Circulated	
7.	Any Other Scrutiny Items which the Chairman Decides are Urgent	
8.	AUDIT BUSINESS	
9.	Annual Treasury Management Report 2018/19 Consider annual report by Chief Financial Officer on the Council's Treasury Management activities undertaken during financial year 2018/19 for review and scrutiny prior to Council approval. (Copy attached).	15 mins

10.	External Auditors' Annual Audit Reports 2018/19	30 mins
	Consider the Annual Audit Reports from the External Auditors on various entities for review and scrutiny prior to Council approval. (Copies attached).	
	(a) Scottish Borders Council (Pages 9 - 54)	
	(b) SBC Trusts (Pages 55 - 78)	
	(c) Scottish Borders Council Pension Fund (Pages 79 - 122)	
11.	Audited Annual Reports and Accounts 2018/19 (Pages 123 - 128)	30 mins
	Consider report by the Chief Financial Officer on various entities' audited Annual Reports and Accounts for the year ended 31 March 2019 for review and scrutiny prior to Council approval. (Copies attached).	
	(a) Scottish Borders Council (Pages 129 - 256)	
	(b) SBC Common Good Funds (Pages 257 - 282)	
	(c) SBC Charitable Trusts: (Pages 283 - 380) (i) SBC Welfare Trust (ii) SBC Education Trust (iii) SBC Community Enhancement Trust (iv) Ormiston Institution (v) SBC Charity Funds	
	(d) Bridge Homes LLP (Pages 381 - 400)	
	(e) SB Supports LLP (Pages 401 - 434)	
	(f) SB Cares LLP (Pages 435 - 474)	
	(g) Lowood Tweedbank Ltd (Pages 475 - 482)	
	(h) Scottish Borders Council Pension Fund (Pages 483 - 544)	
12.	Fraud and Irregularity Update 2018/19 (Pages 545 - 562)	15 mins
	Consider a new national report by Audit Scotland that contains a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2018/19 designed to share best practice and lessons learned. (Copies attached)	
13.	Internal Audit Work to July 2019 (Pages 563 - 574)	15 mins
	Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved internal Audit Annual Plan 2019/20. (Copies attached).	
14.	Any Other Audit Items Previously Circulated.	

15.	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, Ms H Barnett and Mr M Middlemiss

Please direct any enquiries to Judith Turnbull Tel No. 01835 826556
Email: Judith.Turnbull@scotborders.gov.uk

This page is intentionally left blank

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chambers. Council Headquarters, Newtown St Boswells on Thursday, 22 August 2019 at 10.00 am

Present:- Councillors S Bell (Chairman), H. Anderson, K. Chapman, S. Hamilton, N. Richards, H. Scott, E. Thornton-Nicol.
Apologies:- Councillors J.A. Fullarton, S Scott.
In Attendance:- Chief Executive, Chief Financial Officer, Service Director HR and Communications, Clerk to the Council, Trainee Democratic Services Officer

AUDIT & SCRUTINY BUSINESS

1. MINUTE.

- 1.1 There had been circulated copies of the Minute of the Meeting held on 26 June 2019.

DECISION

APPROVED for signature by the Chairman.

- 1.2 With reference to paragraph 6(d) of the Minute of 25 June 2019, the Chief Executive and the Service Director HR and Communications were in attendance to respond to Members on the request for a private report on non-disclosure agreements to be presented to a future Committee. The Chief Executive advised non-disclosure agreements would be very difficult to scrutinise as by their very nature they could not be discussed. It may be possible to bring a general update on the numbers of non-disclosure agreements, how they were processed and an outline of the basic information. Non-disclosures were used rarely, with only 5 put in place since 2014/15. There was an agreed process with the Council's external auditors for the use of non-disclosures, which could be scrutinised by the external auditors if required. The Chief Executive further advised that the Council had made greater use of compromise agreements a number of years previously as protection for the Council against equal pay claims. No additional money was paid as part of these agreements, only that to which an individual was entitled. The Service Director HR & Communications advised Members that non-disclosures were not used to cover up bad behaviour as this was dealt with by a different procedure and was not why they were used. In response to Members' questions on how the public would find out about non-disclosure agreements, the Chief Executive explained that as non-disclosure agreements were exceptional, no information about them was on the Council website. If there were any concerns about their use, this would be raised by the external auditors. However, that information would be made available on the Council website to allay any fears. Members were happy with the explanation from the Chief Executive and agreed not to pursue the matter as a subject for scrutiny. This agreement was proposed by Councillor Scott and seconded by Councillor Chapman, and was unanimously accepted.

DECISION

AGREED not to pursue the matter of non-disclosure agreements as a subject for the Audit & Scrutiny Committee work programme.

SCRUTINY BUSINESS

2. **SCRUTINY WORK PROGRAMME 2019/20**

- 2.1 With reference to paragraph 6 of the Minute of 25 June 2019, there had been circulated copies of a report by the Chief Executive that presented potential subjects for Scrutiny review, as part of the future Scrutiny work programme 2019/20, to be approved by Council. The Clerk to the Council, Ms Wilkinson explained that as detailed in the Scheme of Administration, the Committee was required to develop an annual programme of work for approval by Council. At its meeting on 25 June 2019, the Committee agreed to request that officers liaise with communities/the public to advertise Scrutiny work and any suggested topics for Scrutiny review be submitted, with Elected Members and Community Councils subsequently contacted. Ms Wilkinson advised that although two subjects had been submitted it was suggested that neither of these be taken forward for review as they did not fall within the remit of the Committee.
- 2.2 The Council's Corporate Management Team (CMT) had also suggested a further three subjects and the Committee agreed to take these forward: Income Management Policy; Common Ridings and Festivals in-kind support; and the Responsible Dog Ownership Policy. Mr Robertson advised that as the Income Management Policy had been agreed in 2012 it was due to be reviewed; as part of this, it would also be helpful to see how charges benchmarked against other areas of Scotland. It was considered appropriate for Members to review the application of the policy as the charges and fees involved many Council services income. With regard to the in-kind support for Common Ridings and Festivals, this review was to be welcomed. The grant funding for such events was being taken forward as part of the wider consultation on the Community Fund. Members also welcomed the opportunity to review the Responsible Dog Ownership Policy. Ms Wilkinson further advised that the current Scrutiny work programme contained two outstanding review subjects: Community Access to Schools (scoping paper) and Amey – Trunk Roads Management.
- 2.3 Members then considered a number of other subjects for review, details of which were circulated at the meeting:
- Grass cutting regime (submitted by Bowden Village Committee) – information would be sought from the Neighbourhood Services team on whether this was already subject to review
 - The role of the new Police Community Action Team (submitted by Bowden Village Committee and similar subject submitted by Councillor H Scott) – a preliminary report would be brought to Audit & Scrutiny on the current arrangements
 - The Council's response to speeding concerns (from Bowden Village Committee) – communication of the process for communities could be made through Area Partnerships in the first instance with feedback considered by Audit & Scrutiny if further review was required
 - Pupil Equity Funding (submitted by Councillor Bell) and Child Poverty Indicators (submitted by Councillor H. Anderson) – officers advised that establishing a direct correlation between PEF and attainment may be difficult but an evaluation of the actions the Council was taking on Child Poverty could be reported to Audit & Scrutiny which would include PEF, free school meals, etc.
 - Balance between 20mph limits and street architecture (submitted by Councillor Bell) – to be taken forward
 - Actions being taken by the Council to improve its position on the national Roads Condition Index (submitted by Councillor Bell) and white lining on the Borders road network (submitted by Councillor H Scott) – consideration to be given on the effectiveness of the application of resources rather than a transactional review of the amount spent. This would establish a benchmark for future years.

- The role of SBC Economic Development in light of the new South of Scotland Enterprise Agency (submitted by Councillor Bell) – as discussions were still at an early stage, this subject would not be taken forward at the present time
- The Council's EV Car and Charging Points Policy (submitted by Councillor Chapman) – a report on how this tied in to the national framework was due to be considered by the Corporate Management Team in the first instance; the industry was changing rapidly so this subject would not be taken forward at the present time
- Public transport meeting the needs of communities (submitted by Councillor Chapman) – the Chief Executive confirmed that school transport was open to the public if space allowed on the route and this could be publicised; the outcomes and outputs from the recent Transport Summit were due to come to the Corporate Management Team and a scoping paper would be produced from there
- Rural Proofing Policy (submitted by Councillor Chapman) – a review would be taken forward
- Recycling and Waste Policy (submitted by Councillor Chapman) – the new contract had now started so it was agreed to consider the request in 6 months
- Evaluating and calibrating community contribution (submitted by Councillor H. Anderson) and the management and maintenance of public halls (submitted by Councillor H Scott) – a scoping document would be drafted by the Communities team to include Live Borders halls
- Following the Public Pound (submitted by Councillor H. Anderson) – a briefing on the newly reviewed process for grant evaluation would be provided by the Communities team
- Welfare Fund (submitted by Councillor H Anderson) – a briefing would be provided on how SBC managed applications alongside other funds
- Process for following up actions on Members Questions and Motions at Council (submitted by Councillor H Anderson) – the Chief Executive and Clerk to the Council would look at a process for Members' questions; Motions were followed up.
- The roll out and use of I-pads in schools (submitted by Councillor H Scott) – agreed to delay this until next year.

2.4 It was agreed that the Clerk to the Council would provide a report to Committee on 24 October 2019 with further details of the Scrutiny work programme 2019/20. The Clerk to the Council would also thank everyone who had put forward suggestions and give further explanation on the subjects that would not be taken forward for scrutiny review.

**DECISION
AGREED:**

- (a) **that the following items would not be taken forward at the present time into the proposed 2019/20 Scrutiny Work Programme:**
- (i) **the role of SBC Economic Development in light of the new South of Scotland Enterprise Agency;**
 - (ii) **EV Car and Charging Points Policy;**
 - (iii) **the roll out and use of I-pads in schools; and**
- (b) **that a report on the Scrutiny work programme for 2019/20 would be considered by the Audit & Scrutiny Committee on 24 October 2019 for recommendation to Council.**

The meeting concluded at 11.00 am

This page is intentionally left blank

Scottish Borders Council

2018/19 Annual Audit Report



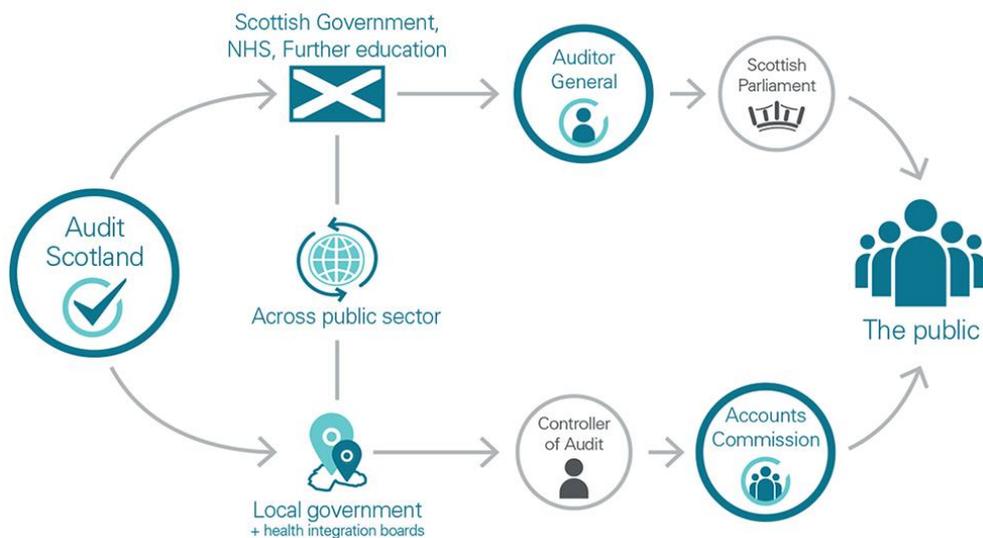
 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit
September 2019

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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual accounts	8
Part 2 Financial management	13
Part 3 Financial sustainability	19
Part 4 Governance and transparency	23
Part 5 Value for money	26
Appendix 1 Action plan 2018/19	28
Appendix 2 Significant audit risks identified during planning	32
Appendix 3 Summary of national performance reports 2018/19	35

Key messages

2018/19 annual accounts

- 1 Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared.
- 2 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 relevant regulations and guidance.
- 3 The statement of accounts of the six section 106 charities administered by the council are free from material misstatement.

Financial management

- 4 The Council has a good track record of delivering services within its budget. Financial management is appropriate and effective with a budget process focussed on the council's priorities.
- 5 We concluded that adequate internal controls were in place for the key financial systems we reviewed.

Financial sustainability

- 6 The council and its group financial position is sustainable in the foreseeable future 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.
- 7 The council has a good track record of delivering savings in recent years. The size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

Governance and transparency

- 8 There are appropriate governance arrangements in place that support the scrutiny of decisions made by the council.
- 9 The council demonstrates a commitment to transparency in the way it conducts its business, although it considers business in private where there is a need to consider commercially sensitive information.

Value for money

- 10 A best value audit was carried out during the year and will be formally reported to the Accounts Commission in October 2019 and published by the end of October 2019.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Scottish Borders Council and its group (the council).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 11 March 2019 meeting of the Audit and Scrutiny Committee. This report comprises the findings from our:
 - audit of the annual report and 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 in 2018/19 have been our:
 - audit of the council and its group 2018/19 annual report and 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
 - review of the council's key financial systems
 - audit work covering the council's arrangements for securing Best Value to be reported to the Accounts Commission in October 2019 and published by the end of October 2019
 - consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. In so doing, we aim to help Scottish Borders Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. 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.
7. 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.
8. 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.
9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:
 - the effectiveness of the council's performance management arrangements,
 - the suitability and effectiveness of corporate governance arrangements, and financial position
 - the arrangements for securing financial sustainability and,
 - best value arrangements.
10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
11. 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 our 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.
12. 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 the steps being taken to implement them.

- 13.** 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 2018/19 audit fee of £275,170 (including £6,000 for the audit of charities) as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 14.** 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 in due course.
- 15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

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 relevant regulations and guidance.

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

- 16.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Council on 26 September 2019. We reported within the independent auditor's report that the:
- 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 relevant regulations and guidance.
- 17.** 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

- 18.** 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 are sole trustees, irrespective of the size of the charity.
- 19.** The council has six section 106 charities which have been separately audited. The council has continued to work on reorganising the trusts administered by the council, with a number of restricted funds transferring to the Scottish Borders Council Welfare Trust and Scottish Borders Council Community Enhancement Trust from the Scottish Borders Council Charitable Trusts at the start of the year. An update report on progress with the reorganisation is expected to be taken to the council in 2019/20.
- 20.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give true and fair views the section 106 charities' financial positions 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.

Submission of the council and its group annual accounts for audit

- 21.** We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.
- 22.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided 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.** In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 18 July 2019 in line with the deadline. We completed the required assurance statement and submitted to the National Audit Office (NAO) by the 28 September 2019 deadline.

Risk of material misstatement

- 24.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.
- 25.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

- 26.** 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.
- 27.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and was based on the 2018/19 budget. Specifically, regarding the annual accounts we assess the materiality of uncorrected misstatements, both individually and collectively.
- 28.** On receipt of the 2018/19 unaudited annual accounts we reviewed our materiality bases and concluded that they remained appropriate ([Exhibit 2](#)).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019.	£3.64 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	£1.82 million

Materiality level	Amount
professional judgement, we have calculated performance materiality at 50% of planning materiality.	
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£75,000

Source: Audit Scotland's Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

- 29.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.
- 30.** The significant findings 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.

Qualitative aspects of the audit

- 31.** We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Exhibit 3 Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. IAS 19 actuarial valuation</p> <p>The actuarial valuation of the IAS 19 pension liability in the unaudited accounts was revised to take account of the McCloud Supreme Court ruling.</p>	<p>The council obtained a revised actuarial valuation which took into account the Supreme Court's ruling and adjusted the financial statements to reflect the revised pension liability. The impact of the adjustment was to increase the employer's liability by £5.9 million. This has no impact on the general fund.</p>
<p>2. Guaranteed minimum pension</p> <p>Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.</p> <p>In October 2018 the High Court (England) ruled that pension schemes must eliminate the discriminatory effects of GMPs.</p> <p>No reference to this had been made in the unaudited accounts.</p>	<p>Due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on Scottish Borders Council at this time. Management included this as a contingent liability for the audited accounts.</p>

Issue	Resolution
<p>3. Payroll creditors</p> <p>The total creditors figure within the balance sheet contained several debit balances relating to payroll. These included balances of £4.8 million in a control account and a £3.8 million in another control account. These balances had not been reconciled to payroll details and it was therefore not clear what these balances related to and what the correct year end creditor balance for the payroll amounts should be. We raised a similar issue in the prior year annual audit report.</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 reconcile the balances at the year end. This has no impact on the general fund.</p> <p>Appendix 1, Action plan point 1</p>
<p>4. Lowood estate purchase</p> <p>During the year the council purchased Lowood estate for £10.2 million as part of its Tweedbank masterplan. This was not referred to in the unaudited accounts. The management commentary in the accounts is intended to provide information on the council's business during the year, including information about amounts in the financial statements, and should have included reference to the purchase.</p>	<p>Management agreed to include comments regarding the purchase of the estate within the management commentary in the audited accounts.</p>

Source: Audit Scotland

How we evaluate misstatements

- 32.** There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.
- 33.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.
- 34.** There was one unadjusted misstatement in the financial statements. Interest payable on external debt of £9.7 million and interest receivable on external debt of £0.3 million have been netted off and included in the Comprehensive Income and Expenditure Statement as £9.4 million within interest payable. These amounts should be split out and the interest payable and interest receivable lines are therefore understated by £0.3 million. Management have agreed to amend this treatment in future years.

Follow up of prior year recommendations

- 35.** The council has made good progress in implementing our prior year audit recommendations, including strengthening the control environment. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Integration Joint Board

- 36.** For the third year the council included its share of the financial transactions of Scottish Borders Integration Joint Board (the IJB) within its group financial statements. We have completed the audit of the IJB and reported our findings separately to the Scottish Borders IJB Audit Committee on 12 August 2019. Assurances were obtained from the auditors of NHS Borders and Scottish Borders council to check the accuracy and completeness of IJB figures

included in the IJB accounts. Further commentary on the IJB is provided in [Part 4](#) of this report.

Other findings

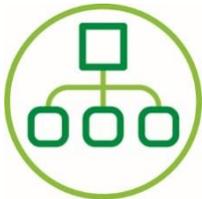
37. Our audit identified several presentational and disclosure issues, including finance lease values, contingent rent values and capital commitments, along with other minor issues. These were all discussed with management and adjusted and reflected in the audited annual accounts.

Objections

38. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations.
39. There were four objections to the accounts. These related to the council's purchase of Lowood estate during the year and its measurement and disclosure in the accounts. As part of our audit work we confirmed that the estate had been correctly accounted for as an addition in the year and concluded that the accounts were not materially misstated. At the year end the asset is valued in accordance with the accounting policies of the council, which is in compliance with the Code of Practice on Local Authority Accounting in the UK 2018/19. As no further contractual commitments have been taken out in connection with the development of this site, there is no requirement for Note 12 to disclose future capital plans in connection with this site. Issues with disclosure of the purchase were corrected for the audited accounts, as described at [Exhibit 3](#) above.

Part 2

Financial management



Main judgements

The Council has a good track record of delivering services within its budget. Financial management is appropriate and effective with a budget process focussed on the council's priorities.

On the basis of audit work undertaken, we concluded that adequate internal controls were in place for the key financial systems we reviewed.

Financial performance in 2018/19

40. The council approved its 2018/19 budget in February 2018. The budget was set at £272.7 million with required savings of £11.4 million. When developing the budget, the council used a corporate budget pack that aligned financial, business and people planning with the delivery of Corporate priorities.
41. The council has a good track record in delivering services within budget over the last few years. The actual outturn for the year was expenditure of £257.5 million, which was an underspend of £1.6 million against the revised budget of £259.0 million for the year.
42. While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant 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

Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Asset and infrastructure	£0.3	Reduction in spend due to milder winter
Customer and communities	£0.2	Increased fee income
Overspends		
Loans charges	£0.2	Higher than anticipated borrowing costs in Loans Charges

Source: Scottish Borders Council 2018/19 Revenue Outturn

Reserves

43. 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 slightly decreased from £28.8 million in 2017/18 to £28.0 million in 2018/19 as illustrated in [Exhibit 5](#).
44. The general fund is the largest reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.
45. 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 2019/20 the Corporate Financial Risk Register was considered by the council in February 2019. At this time the financial risk was assessed as being £11.6 million. The unallocated general fund balance of £6.3 million is sufficient to cover 54% of these risks at that time. This is a slight deterioration on the prior year position which covered 57% of the assessed risks at that time.
46. 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.
47. [Exhibit 5](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. This shows that the council has been able to maintain its general fund at a relatively stable level over the period which suggests that budget processes are effective.

Exhibit 5 Analysis of general fund over last five years



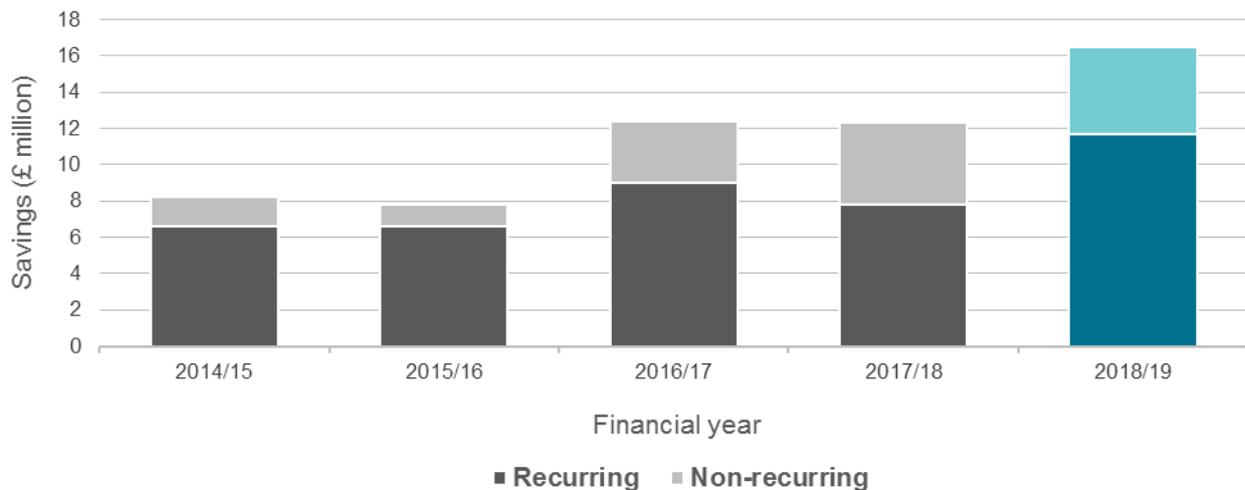
Source: Scottish Borders Council annual accounts

Savings

48. 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.

49. The council has responded well to the challenges it has faced and has a good track record of delivering savings each year. Savings of £16.4 million were reported as delivered during 2018/19. This was the highest level of savings that the council has achieved in a year and is significantly higher than the level achieved in the prior year (£12.3 million). As illustrated in [Exhibit 6](#), the council has continued to achieve a proportion of in-year savings on a non-recurring (temporary) basis, with £4.8 million (29%) achieved on a non-recurring basis in 2018/19, which is a decrease in percentage terms compared to the prior year.

Exhibit 6 Savings – recurring and non-recurring



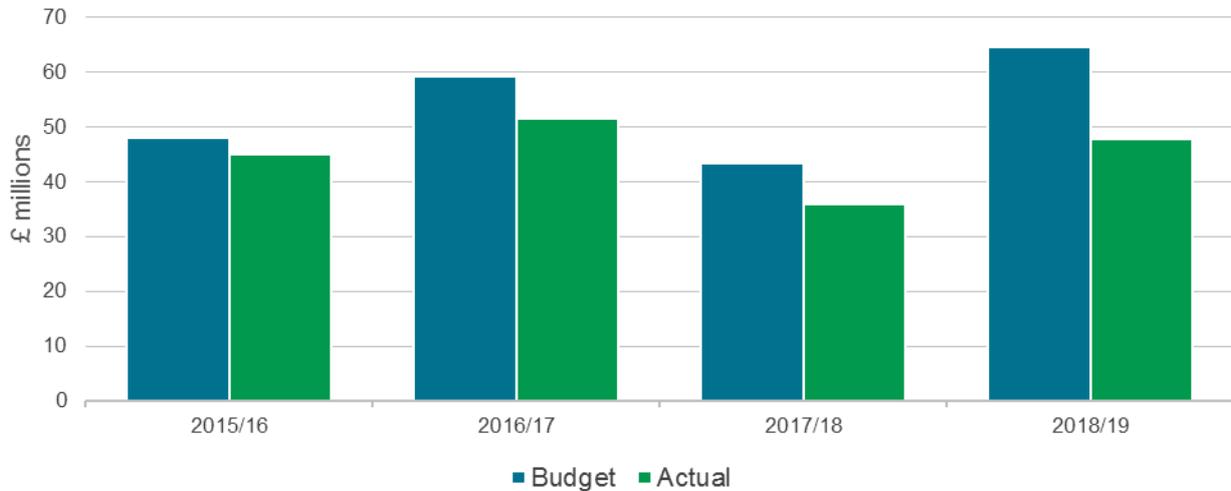
Source: Scottish Borders Council annual accounts

Capital programme 2018/19

50. The Council agrees a 10 year capital plan each year as part of its budget process. Total capital expenditure in 2018/19 was £47.8 million, with the main areas of expenditure being: the purchase of Lowood Estate as part of the council's Tweedbank masterplan; Hawick Flood Protection Scheme; Jedburgh Learning Campus; and expenditure on roads and bridges. The total capital spend was £16.7 million below the revised budget for the year of £64.5 million, mostly due to movements between years as a result of timing. The council has a history of slippage in its capital programme as outlined in [Exhibit 7](#).

Exhibit 7

Capital slippage compared to budget



Source: Scottish Borders Council capital outturn reports

51. The most significant areas of slippage related to: Early Learning & Childcare (£3.5 million moved to 2019/20 to reflect revised programme of work); School estate block (£3.0 million moved to 2019/20 due to timing of work); and ICT transformation (£1.3 million moved to 2019/20 to reflect revised financial model).
52. The council has prepared a Capital Investment Strategy for 2019/20 which highlights its capital investment priorities and explains how these priorities will assist with the delivery of the council's Corporate Plan 2018 -2023. The strategy is structured to reflect the themes of the Corporate Plan.

Borrowing in 2018/19

53. The council's outstanding loans at 31st March 2019 were £199.1 million, a decrease of £3.6 million on the previous year. £13.0 million of loan repayments were made and there were £10.0 million of new loans taken out during the year.
54. Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy. The current borrowing position complies with the Prudential Code, and the council will continue to consider the affordability of future borrowing.

Budgetary process

55. The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) 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.
56. We noted that the council, when developing its annual budget, uses a corporate budget pack that aligns financial, business and people planning with the delivery of Corporate priorities. The budget also includes high level scenario plans which set out favourable and least favourable scenarios.
57. 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 an overall picture of the budget

position at service level. The report's forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out effective scrutiny of the council's finances.

Systems of internal control

- 58.** 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.
- 59.** Our findings were included in our management report that was presented to the Audit and Scrutiny Committee on 25 June 2019. This report set out that some control weaknesses had been identified. We did note that many issues reported last year with the new financial system, Business World, had been addressed and that controls had improved from the previous year. Overall we concluded that the council had adequate systems in place and 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.

Internal audit

- 60.** 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. Our assessment confirmed that the Council's Internal Audit perform in accordance with Public Sector Internal Audit Standards (PSIAS). We have used the work of internal audit in the following areas for our 2018/19 financial statements audit: Business World, Revenues (Council Tax and Non Domestic Rates). We also considered Internal Audit's work as part of our wider dimensions audit responsibilities.

Standards of conduct for prevention and detection of fraud and error

- 61.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-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.
- 62.** 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.

National Fraud Initiative

- 63.** 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.
- 64.** NFI activity at the council is summarised in [Exhibit 8](#). We undertook a review of the council's NFI arrangements in April 2019 and concluded that overall they were satisfactory, although we did note that work on investigating NFI matches is not carried out promptly once they are available.

Exhibit 8 NFI activity



1,448

Matches

247

High risk matches

306

**Completed/closed
investigations**

Source: NFI secure website: www.nfi.gov.uk at 2 September 2019

65. The outcome of the Council's work on fraud prevention, detection and investigation is reported annually to the Audit & Scrutiny Committee, including updates on NFI work. The Counter Fraud Annual Report from May 2019 noted that 15 fraud investigations had been carried out during the year, none of which identified any serious fraud or resulted in a prosecution.

Key suppliers

- 66.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.
- 67.** The council has adequate arrangements in place to monitor services being provided by key suppliers. A Major Contracts Governance Group (MCGG) is in place which meets six times a year. This group's responsibilities include monitoring the activities and performance of SB Cares (arm's length external organisation (ALEO) providing adult social care, see paragraph 114) and SB Contracts (the council's trading organisation), as well as overseeing significant contracts at the council, such as the contract with CGI for ICT. The MCGG receives updates on performance and projects being carried out at the bodies being monitored which allows members to scrutinise activities being carried out on behalf of the council.

Part 3

Financial sustainability



Main judgements

The council and its group financial position is sustainable in the foreseeable future 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 the current levels.

The Council has a good track record of delivering savings in recent years. The size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

Financial planning

- 68.** 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 and which reflect the impact of future pressures on the council. 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.
- 69.** 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. Since 2018/19 the council's budget proposals have included high-level scenario planning for a 10-year period. The 2019/20 budget scenarios included a 'favourable' scenario where the gap between expenditure and funding is £41.8 million by 2028/29, and a 'least favourable' scenario where the gap is £76.2 million.

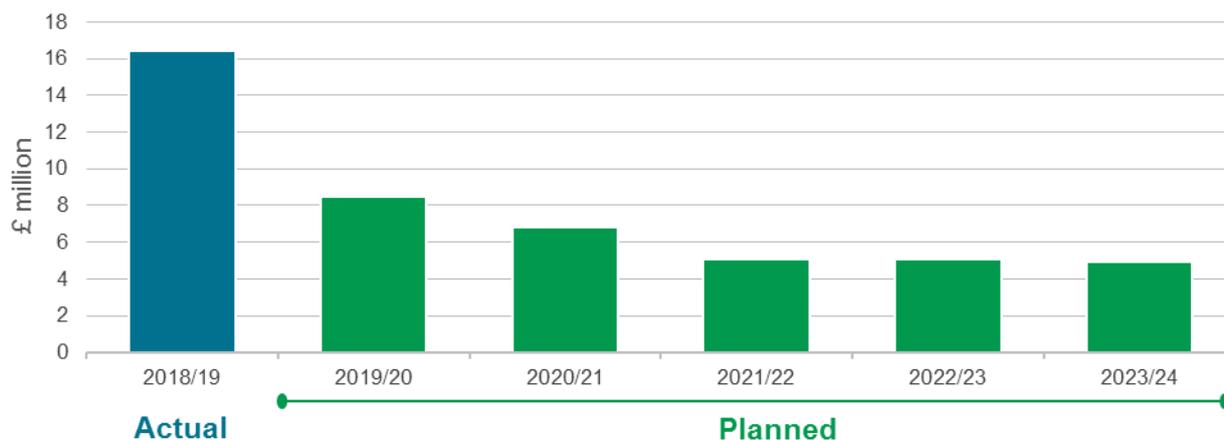
Funding position and savings plans

- 70.** The council approved its 2019/20 budget in February 2019. The budget was set at £283.8 million. The council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in local government funding.
- 71.** As outlined in paragraph 49, the council achieved its efficiency savings target in 2018/19. The council has identified that it needs to make savings of £8.5 million in 2019/20. Looking at the council's budget information for 2020/21 to 2023/24, it is forecasting a funding gap of £21.9 million over the period.

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

Exhibit 9

Savings 2018/19 – 2023/24



Source: Scottish Borders Council Financial Plan 2019/20 to 2023/24

Changing landscape for public financial management and medium to long term financial planning

- 72.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.
- 73.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning. As mentioned above, the council has a five-year financial strategy linked to its capital plans and is addressing the challenges.

EU Withdrawal

- 74.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal (i.e. Brexit) will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
 - Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
 - Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.
- 75.** In January 2017 the Council's Executive Committee agreed to the formation of a Brexit Response Team (BRT) to monitor and respond to changes at the Council because of Brexit. The BRT consists of representatives from various service areas, including Procurement, Legal and Human Resources. An update

on the work of the BRT was presented to the Executive Committee in January 2019 and to the Council in March 2019.

- 76.** The BRT has continued to meet regularly during the year to discuss the council's preparations for Brexit. Sub-groups of officers have considered the issues in more detail and workshops have been held to discuss the issues with council officers as well as representatives from other organisations. Updates on the work being done by the council have been provided to staff through the council's newsletter. A risk register for monitoring risks relating to Brexit has also been maintained by the BRT.
- 77.** In our view, the council has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor the council's preparations for, and response to, EU withdrawal.

City Region Deal

- 78.** The council is part of the Edinburgh and South East Scotland City Region Deal. This is a partnership between six councils (Scottish Borders plus the City of Edinburgh, East Lothian, Fife, Midlothian and West Lothian) together with universities and colleges, the Scottish and UK Governments and the third and private sectors. The UK and Scottish governments will jointly invest £600 million over the next 15 years, with regional partners committed to contributing over £70 million. An outline agreement between the partners was agreed in July 2017 and the deal was formally agreed by partners in August 2018.
- 79.** A joint committee, which includes leaders from all the councils, oversees the implementation and monitoring of the deal, supported by a programme management office and several advisory boards. The joint committee meets quarterly and reports to the Scottish and UK governments via a joint delivery board. Deal partners plan to review governance arrangements every six months.
- 80.** As part of the deal, the council approved a business case for the Central Borders Innovation Park in Tweedbank, in January 2019. This evolved from the council's masterplan for Tweedbank, to maximise the economic impact of the Borders Railway. It will be funded by £15.0 million from the deal over a 15-year period and £14.1 million from other sources including £5.0 million from the council.

The Borderlands Inclusive Growth Deal

- 81.** In September 2018, a bid was submitted to the UK and Scottish Governments by five councils that straddle the border between Scotland and England: Scottish Borders, Dumfries and Galloway, Carlisle City, Cumbria County and Northumberland County. The Scottish Government announced, in March 2019, a commitment of £85 million towards the deal over a decade. The UK government then unveiled a £260 million contribution the same month. The deal partners, including the councils and the UK and Scottish governments, anticipate their overall investment of £395 million could generate 5,500 new jobs.
- 82.** Funding has been confirmed for some projects, subject to full business cases, including up to £19 million from the UK government for a mountain biking innovation centre in the Scottish Borders. In addition, up to £5 million will be made available by each government to progress the evidence base, the options appraisal and the feasibility work for extending the Borders Railway from Tweedbank to Carlisle. The outline agreement was published in June 2019.

The South of Scotland Enterprise Agency

83. As part of its Enterprise and Skills Review, the Scottish Government committed to create the South of Scotland Enterprise Agency covering the Scottish Borders plus Dumfries and Galloway. In 2017 the Scottish Government set up the South of Scotland Economic Partnership (SoSEP) as an interim solution to ensure that the south of Scotland benefits from economic development as soon as possible. The SoSEP involves representatives from business, the third sector, further and higher education, and key public sector partners. One of the council's Executive Directors has been seconded to the Scottish Government since 2017 for 60 per cent of his time in order to assist with the setting up of SoSEP. The Scottish Government agreed the creation of the Agency in June 2019 and the aim is for the agency to be operational by April 2020.

Business transformation

- 84.** Audit Scotland's [*Local government in Scotland – challenges and performance 2019*](#) (April 2019) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.
- 85.** The Council had a Corporate Transformation Programme in place during the year 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 had five workstreams: Digital Transformation, Children & Young People, Health & Social Care, Workforce Transformation and Corporate Landlord.
- 86.** Recognising a need to increase its pace of change and be more innovative, the council replaced the Corporate Transformation Programme in February 2019 with its challenging 'Fit for 2024' transformation programme. This is intended to be a five-year rolling programme that will improve how the council is managed and save £30 million.
- 87.** Fit for 2024 emphasises the importance of a cross-cutting approach and of the programme being driven corporately. Its seven main aspects are:
- a whole-council service review and redesign programme
 - enhancing community engagement, participation and empowerment
 - making best use of physical assets, assisted by a corporate landlord model
 - investing in well-planned and designed digital solutions
 - developing the workforce's skills, flexibility and working patterns
 - optimising partnership resources
 - making process and productivity improvements.
- 88.** Progress with the transformation programme is reported quarterly to the council's Executive Committee during the year which allows members to scrutinise progress with transformation programmes.

Part 4

Governance and transparency



Main Judgements

There are appropriate governance arrangements in place that support the scrutiny of decisions made by the council.

The council demonstrates a commitment to transparency in the way it conducts its business, although it considers business in private where there is a need to consider commercially sensitive information.

Governance arrangements

89. 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.

90. A revised Scheme of Administration was agreed by the council following the local government election in May 2017. This maintained the executive structure in place at the council since 2015. The functions previously delegated or referred to the Scrutiny Committee by the council were included within the functions of the Audit and Scrutiny Committee which replaced the previous Audit and Risk Committee.

91. The Audit and Scrutiny Committee includes space for up to three external members for considering audit related matters. 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 had only one external member during 2017/18, however an additional external member was appointed at the end of 2018.

92. 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.

Openness and transparency

- 93.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.
- 94.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.
- 95.** 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. The council and committees do meet and consider business in private where there is a need to consider commercially sensitive information. The need to consider business in private should be subject to regular review.
- 96.** 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.
- 97.** Overall, we concluded that the council conducts its business in an open and transparent manner.

Transparent reporting of financial performance

- 98.** The management commentary that accompanies the financial statements should explain in simple terms and, provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.
- 99.** The management commentary describes the council's highlights of 2018/19 as well as setting out political structure, the council's financial strategy followed by a summary of outturn against budget (for both revenue and capital). The management commentary also includes a brief summary of the group component's financial performance.
- 100.** Overall we concluded that the council's management commentary was balanced, well presented and understandable, and consistent with the financial statements. However we did note that the management commentary in the unaudited accounts should have included reference to the council's purchase of Lowood estate during the year, as detailed in [Exhibit 3](#).

Integration of health and social care

- 101.** 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.
- 102.** The Scottish Borders Integration Joint Board (IJB) is provided in partnership with NHS Borders and became fully operational on 1 April 2016 when it began its strategic oversight of the delivery of health and social care services for the residents of the Scottish Borders.
- 103.** The IJB has brought in new ways of working and providing services, for example the development of the 'step-down' facility at Craw Wood (now Gardenview) and a hospital-to-home service. During 2018/19 the IJB published

its refreshed Strategic Plan for 2018-21 which identifies three strategic priorities for the IJB that are underpinned by seven partnership principles which inform local objectives. These local objectives are linked to the Scottish Government's nine health and wellbeing outcomes.

- 104.** During 2018/19, the council made additional in-year budget allocations of £3.2 million for delegated IJB services to support delayed discharge and alleviate service pressures of £1.8 million. In year £1.4 million of savings which were anticipated by the Financial Plan were not delivered and this required additional financial resources from the council to ensure that the health and social care service did not overspend its allocated budget.
- 105.** 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.

Correspondence referred to the auditor

- 106.** We received correspondence from six correspondents, including the four objections referred to in paragraph 39, covering issues related to the council's purchase of Lowood estate. The issues relate to value for money, governance and the longer term commercial viability of the land. We considered the issues and evidence provided. Papers submitted to the full council document the reasons for taking the decisions in private, provide the context of the Local Development Plan and supplementary guidance, and the decision to purchase the estate was based on a majority vote by members. We are satisfied that this work did not identify any issues which had an impact on our opinion on the financial statements or our wider dimensions considerations in 2018/19. We will continue to monitor the situation during our audit appointment.

Good practice points

- 107.** The council's Audit and Scrutiny Committee has two external non-voting members for when the committee is considering audit matters. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control.

Part 5

Value for money



Main judgements

A best value audit was carried out during the year and will be formally reported to the Accounts Commission in October 2019 and published by the end of October 2019.

Best value

108. 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 draft BVAR report for the council will be discussed by the Accounts Commission on 10 October 2019. The findings in the report and the council's response will be followed up and reported on as part of the 2019/20 audit.

109. The scope of the BVAR included:

- the council's vision and strategic direction, including how well its leadership works together to deliver priorities set out in its Corporate Plan 2018-2023, 'Our Plan and Your Part in it'
- how well the council delivers services through partnership and collaborative working, including: the Integration Joint Board, arm's-length external organisations, the City Deal and community empowerment
- progress of the council's ongoing transformation programme, including how effectively the council uses workforce planning to support the delivery of its priorities
- assessment of how the council monitors trends in outcomes/performance and the reporting of these, including the council's public performance reporting
- the link between the council's self-evaluation, improvement actions and changes in outcomes for local people; and
- the effectiveness of procurement arrangements.

110. We have therefore not included detailed assessments of the areas covered by the BVAR within this report.

Following the public pound

111. 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.

112. The council's Financial Regulations were revised during the year to reflect changes to management responsibilities and processes in recent years, as

Best Value is about using resources effectively and continuous improvement in the delivery of services to citizens.

well as ensuring that that they reflected the new Business World ERP system. These were approved by the council in November 2018.

- 113.** The Financial Regulations contain a specific reference that funding to external bodies must be in line with the council's Code of Practice on 'Following the Public Pound' which is available through the council intranet. We reported last year that Internal Audit had recommended that this guidance should be refreshed along with the Financial Regulations. This has not yet been completed and the guidance has not been updated since 2006.

[Appendix 1, Action plan point 2](#)

SB Cares

- 114.** SB Cares is a limited liability partnership between the council and SBC Nominees and provides adult social care services in the council region. It was created in 2015 following the council's decision to transfer around 800 staff to the ALEO. The council provides most of their funding and SB Cares is included in the council's group accounts as a subsidiary. The council is reviewing the provision of adult care services and it is currently uncertain whether this arrangement will continue after the current Service Provision Arrangement ends in March 2020.

Statutory performance indicators (SPIs)

- 115.** 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.
- 116.** For 2018/19 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](#).
- 117.** We have reviewed a number of areas as part of our BVAR during 2018/19 in relation to SPI 1.
- 118.** For SPI 2, we used the work of Internal Audit. The council's Internal Auditors carried out validation work on the Local Government Benchmarking Framework (LGBF) indicators for 2018/19. They identified some anomalies in data which were corrected prior to submission of the indicators to the Improvement Service. Overall internal audit provided substantial assurance regarding the process, with some scope for improvement to arrangements.

National performance audit reports

- 119.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 3](#).
- 120.** 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 2018/19



No. Issue/risk

Recommendation

Agreed management action/timing

1	<p>Payroll Creditors</p> <p>The creditors figure in the balance sheet included several large debit balances relating to payroll amounts. These account balances had not been reconciled during the year and 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 position at the year end.</p> <p>We reported a similar issue in the 2017/18 annual audit report and were told that it was a temporary issue which would be corrected.</p>	<p>The council should carry out timely review of the creditors ledger and reconcile payroll amounts during the year.</p> <p>Exhibit 3</p>	<p>Agreed</p> <p>Responsible officer HRSS Manager</p> <p>Agreed date 31 October 2019</p>
2	<p>Following the Public Pound</p> <p>The Council's Following the Public Pound guidance has not been refreshed since 2006.</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 council should review the guidance to ensure that it is still appropriate and available to relevant staff.</p> <p>Paragraph 113</p>	<p>Agreed</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31 March 2020</p>
Follow up of prior year recommendations			
3	<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>The council reviewed non-current assets during the year and ensured that assets were being correctly accounted for. Action complete.</p>
4	<p>Pension Scheme valuation</p> <p>The council accounts for its share of Scottish Borders Council Pension Fund in</p>	<p>The council should ensure that asset values reported are as accurate as possible and that any potential differences due</p>	<p>Pension valuations required to be updated due to Supreme Court ruling on McCloud case in 2018/19.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>to timing of information are adequately considered.</p>	<p>See Exhibit 3</p>
5	<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 position at the year end.</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>See action plan point 1 above</p>
6	<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>The council achieved a high level of savings in 2018/19, which included an element of non-recurring savings. The percentage of savings achieved on a non-recurring basis was lower than previous years.</p> <p>See paragraph 49</p>
7	<p>Internal Controls</p> <p>The system of internal controls at the Council was affected by the introduction of a new financial system, Business</p>	<p>The Council should ensure that work to address issues with the financial system is completed as soon as possible</p>	<p>Many issues identified in the previous year have been addressed and we reported our findings in our</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>Management Report during the year.</p> <p>See paragraph 59</p>
8	<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>The council has continued to use consultants to address issues with the Business World system. A supplier for the Digital Customer Access programme was identified and the programme is progressing.</p> <p>See paragraph 59</p>
9	<p>GDPR</p> <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>The council should ensure that work on complying with GDPR requirements is completed as soon as possible.</p>	<p>We confirmed that the council has completed the outstanding work on implementing GDPR requirements.</p> <p>Action complete.</p>
10	<p>Following the Public Pound</p> <p>The Council's Following the Public Pound guidance and Financial Regulations have not been updated to take</p>	<p>The Following the Public Pound guidance and Financial Regulations should be updated.</p>	<p>The council approved revised Financial Regulations in November 2018.</p> <p>Following the Public Pound guidance has not yet been</p>



No. Issue/risk

Recommendation

Agreed management action/timing

account of changes in guidance and operating processes at the Council.

There is a risk that the existing guidance is no longer relevant and the Council is not ensuring it is delivering value for money.

revised. See action plan point 2 above.

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>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p>	<p>Our work on the review of the professional valuer confirmed that we could rely on the asset valuation information being provided.</p> <p>Our conclusion is that the estimates and judgements used are appropriate.</p>
<p>5 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 can be significantly higher or lower than actual returns.</p> <p>Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19.</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>Review of actuarial report which supports pension assets and liabilities, as accounted for at year end in the balance sheet and the movements in the comprehensive income and expenditure statement, and all associated disclosures.</p>	<p>A revised actuarial valuation was required by the council following the Supreme Court ruling on the McCloud case. The financial statements were updated for this.</p> <p>See Exhibit 3</p>
<p>6 Financial systems</p> <p>The council implemented a new financial system, Business World, from April 2017. Although mostly delivered as planned, there were issues with the implementation of the system, as reported by Internal Audit and in our 2017/18 Management Report and 2017/18 Annual Audit Report. An update to the system has taken place during 2018/19.</p> <p>There is a risk that issues reported in 2017/18 have not been addressed and impact on the controls in place over preparation of the 2018/19 annual accounts.</p>	<p>Review of internal audit work on the systems of internal control.</p> <p>Testing of the operation and effectiveness of the controls in place over the system.</p>	<p>We tested the controls in place over the financial system, including using the work of internal audit. Findings of this work were reported to the Audit and Scrutiny Committee in June 2019 in our Management Report.</p> <p>See paragraph 59</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>7 Financial sustainability</p> <p>The council has a financial strategy covering the 5 year period 2019/20 – 2023/24. This strategy includes the requirement to identify £30.4m 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 comments in part 3 of this report.</p>
<p>8 Financial management</p> <p>The latest financial report for quarter 3 of 2018/19, reported in February 2019, indicated that there could be an adverse variance at the year end of £1 million, mostly due to pressures in Health & Social Care and Assets & Infrastructure budgets. The report also noted that £16.4 million of savings have been delivered for 2018/19, with £4.7 million of these delivered on a temporary basis.</p> <p>There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p>	<p>Review of financial monitoring reports and the council's financial position.</p> <p>Comment in Annual Audit Report.</p>	<p>See comments in part 2 of this report.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Scottish Borders Council

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

Audit and Scrutiny Committee

Scottish Borders Council, Newtown St Boswells, TD6 0SA

23 September 2019

Scottish Borders Council Audit of 2018/19 annual accounts

Independent auditor's report

1. Our audit work on the 2018/19 annual accounts is now substantially 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 26 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 2018/19 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. There was one unadjusted error which we have reported under the heading "How we evaluate misstatements" in the draft annual audit report.

Fraud, subsequent events and compliance with laws and regulations

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

Representations from Chief Financial Officer

8. 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.
9. A letter of representation template is 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

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 2019 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the council-only Council Tax Income Account, 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 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 2018/19 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. 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. Non-audit services prohibited by the Ethical Standard were not provided to the council. 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.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Financial Officer and the Audit and 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 and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My 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 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

September 2019

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 2018/19

1. This representation letter is provided about your audit of the annual accounts of Scottish Borders Council for the year ended 31 March 2019 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 2019.

General

3. Scottish Borders Council and I have fulfilled our statutory responsibilities for the preparation of the 2018/19 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 2018/19 (2018/19 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 2019 and the transactions for 2018/19.

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 2018/19 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's 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.
10. In my opinion, no adjustment or disclosure is required to Scottish Borders Council and its group accounts to reflect the review of adult social care provision being carried out by the council, which may impact on the future of SB Cares. The preparation of the group accounts on a going concern basis remains appropriate.

Assets

11. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2019 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
12. I carried out an assessment at 31 March 2019 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
13. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2019.
14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
15. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

16. All liabilities at 31 March 2019 of which I am aware have been recognised in the annual accounts.
17. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2019 of which I am aware where the conditions specified in the 2018/19 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 2019. 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.

18. Provisions recognised in previous years, including the asset decommissioning provision for restoration of the Langlee landfill site, have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2019 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
19. The accrual recognised in the financial statements for holiday untaken by 31 March 2019 has been estimated on a reasonable basis.
20. 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.
21. 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

22. There are no significant contingent liabilities, other than those disclosed in Note 26 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and IAS 37.

Fraud

23. 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

24. 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

25. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2018/19 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

26. 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

27. 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

28. I confirm that the Scottish Borders Council has undertaken a review of the system of internal control during 2018/19 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.
29. 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 2019, which require to be reflected.

Group Accounts

30. 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 2018/19 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

31. All events subsequent to 31 March 2019 for which the 2018/19 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Chief Financial Officer

This page is intentionally left blank

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

23 September 2019

Dear Trustees

Charitable Trusts administered by Scottish Borders Council Report to those charged with governance on the Audit of 2018/19 annual accounts

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. 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 2019.
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. The members of the Audit and Scrutiny Committee of Scottish Borders Council are identified as those charged with governance. The trustees of the charities are the elected members of Scottish Borders Council.
3. This report sets out for the Audit and Scrutiny Committee's consideration, the matters arising from the audit of the financial statements for 2018/19 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however, this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Scottish Borders Council, as the trustees of the registered charitable trusts listed at Appendices A to F, and no responsibility to any third party is accepted.

Status of the Audit

4. We received the unaudited financial statements on 28 June 2019. 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. The issues arising from the audit were discussed with officers during the audit.

Matters to be reported to those charged with governance

5. We 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

6. We are required to audit the financial statements of the charitable trusts where the sole trustees are elected members of Scottish Borders Council.
7. 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 11 March 2019 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in 2016.
8. 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 2018/19 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, subsequent events and compliance with laws and regulations

9. In presenting this report to the trustees' we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the letter of representation template ([Appendix G](#)).

Audit Opinion and Representations

10. As part of the completion of our audit, we are seeking written representations from the Chief Financial Officer on aspects of the financial statements, including the judgements and estimates made.
11. A letter of representation template is attached at [Appendix G](#). This should be printed on headed paper, signed and returned by the Chief Financial Officer with the signed financial statements prior to the independent auditor's report being certified.
12. 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

13. 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.

14. During the year assets held by the Council were identified as being Common Good Fund assets. A restatement of prior year figures was required. An amended set of accounts was 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

15. Our audit work on the 2018/19 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 26 September 2019 (the proposed reports are at [Appendices A-F](#)).

Acknowledgements

16. 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: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX B: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX C: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Community Enhancement Trust and the Accounts Commission

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX D: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Education Trust and the Accounts Commission

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX E: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Ormiston Trust for Institute and the Accounts Commission

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 the year ended 31 March 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX F: Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Scottish Borders Council Welfare Trust and the Accounts Commission

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 the year ended 31 March 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

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

APPENDIX G: Letter of Representation (ISA 580)

Asif A Haseeb OBE
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

26 September 2019

Dear Mr Haseeb

Charitable Trusts administered by Scottish Borders Council - Annual Accounts 2018/19

- 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 about your audit of the Annual Report and Financial Statements of the registered charitable trusts listed above for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and properly present the financial position of each of these registered charitable trusts as at 31 March 2019 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 2019.

General

3. I acknowledge my responsibility and that of Scottish Borders Council (as the administering authority) for the financial statements and have fulfilled our statutory responsibilities for the preparation of the 2018/19 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 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 as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The financial statements have been prepared in accordance FRS 102, 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 2019.

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 Basis of Accounting

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. I am not aware of any material uncertainties that may cast significant doubt on the Charitable Trusts' abilities to continue as going concerns.

Assets

9. The investments shown in the balance sheet at 31 March 2019 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.

Fraud

10. 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

11. 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

12. All material transactions with related parties have been appropriately accounted for and 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.

Corporate Governance

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

Events Subsequent to the Date of the Balance Sheet

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

Yours sincerely

David Robertson
Chief Financial Officer

Scottish Borders Council Pension Fund

2018/19 Annual Audit Report



 AUDIT SCOTLAND

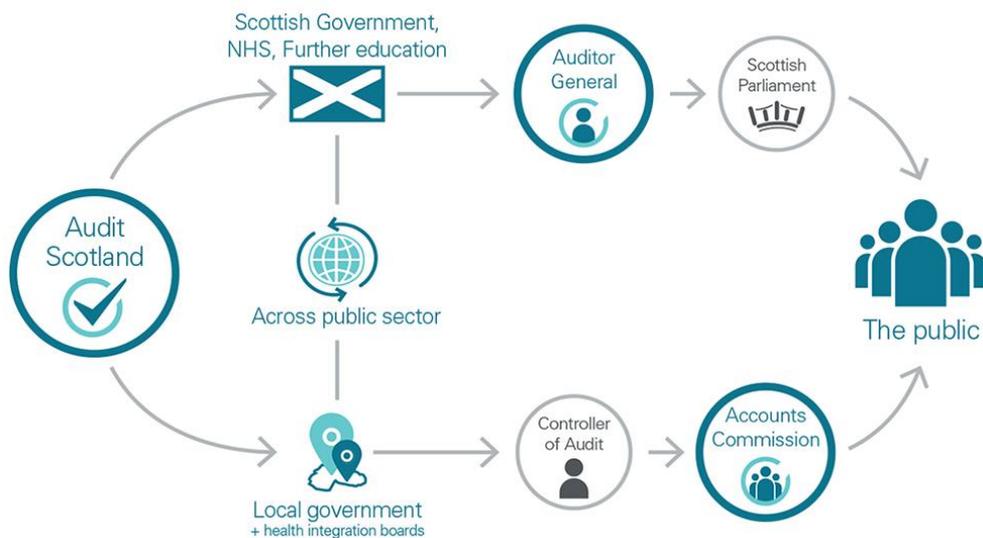
To Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Controller of Audit

September 2019

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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual accounts	8
Part 2 Financial management	12
Part 3 Financial sustainability	16
Part 4 Governance and transparency	19
Part 5 Value for money	21
Appendix 1 Action plan 2018/19	24
Appendix 2 Significant audit risks identified during planning	30
Appendix 3 Summary of national performance reports 2018/19	32

Key messages

2018/19 annual report and accounts

- 1 Scottish Borders Council Pension Fund's (the fund) financial statements 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 and properly prepared.

Financial management

- 3 The fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.
- 4 The fund grew by 7.6% during 2018/19, slightly below its benchmark of 7.7%. The fund has a rolling three-year performance of 11.3%, which is above the benchmark of 10%. The fund is continuing to make progress with its asset strategy, reducing exposure to equity investment from 58% to 48% of the total fund.

Financial sustainability

- 5 The 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 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 There are effective governance arrangements in place that support scrutiny of decisions made by management and the Pension Fund Committee.
- 8 Papers and minutes of meetings of the Pension Fund Committee are available on the Scottish Borders Council website. There is also a dedicated website for the fund, making available a wide range of important information relevant to members of the fund.

Value for money

- 9 The 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 2018/19 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 11 March 2019 meeting of the Pension Fund Committee. This report comprises our:

- audit of the Fund's annual 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 2018/19 have been our:

- audit of the Fund's 2018/19 annual accounts including the issue of an independent auditor's report setting out our opinions
- review of the Fund's main financial systems
- consideration of the four audit dimensions of public audit.

Added Value

4. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. 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.

Responsibilities and reporting

6. 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.

7. The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. In the case of Scottish Borders Pension Fund, the arrangement is for the Council's Audit and Scrutiny Committee to review the effectiveness of internal control arrangements and to recommend the annual report and accounts for approval by the Council.

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

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude 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.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. 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 our 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. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

13. 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 therefore the 2018/19 audit fee of £20,580 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the members of the Scottish Borders Council as administering authority for the Scottish Borders Pension Fund and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Scottish Borders Council Pension Fund's financial statements 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 and properly prepared.

The annual accounts are the principal means by which the pension fund demonstrates effective stewardship and use of resources to its external stakeholders.

Audit opinions on the annual accounts

16. The annual accounts for the year ended 31 March 2019 were approved by the Council on 26 September 2019. We reported, within our independent auditor's report that:

- the financial statements 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 and properly prepared in accordance with the guidance.

17. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual accounts for audit

18. We received the unaudited annual accounts on 28 June 2019, in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

19. The working papers provided with the unaudited accounts by the Human Resources Shared Services (HRSS) team and the finance team were of an adequate standard and finance staff provided good support to the audit team. This helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

21. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

22. 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.

23. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the September 2018 Investment Performance Information, see [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

24. On receipt of the unaudited 2018/19 annual accounts we revised our planning materiality calculations. The revised amounts did not change overall materiality as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Planning Amounts
Overall materiality	£7.30 million
Performance materiality	£4.38 million
Reporting threshold	£220,000
Specific materiality for certain classes of transactions	£2.28 million
Specific performance materiality for certain classes of transactions	£1.4 million

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

26. The significant findings 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.

Qualitative aspects of the audit

27. We identified 2 significant findings in relation to the qualitative aspects of accounting practices and these are highlighted in [Exhibit 3](#). These are further highlighted in [Appendix 1](#) with recommendations.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Key reconciliations are not being performed</p> <p>On selecting a sample of debtors and creditors balances for further testing, we found that several balance sheet codes (e.g. pension suspense accounts) are not being reviewed or reconciled.</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 reconcile the balances at the year end.</p>

Issue	Resolution
<p>Without reconciliations or reviews being carried out, there is a risk of uncorrected errors not being identified on a timely basis.</p>	 Recommendation 1 (refer appendix 1 , action plan)
<p>2. Reconciliation of pensions paid figure</p> <p>There is no monetary reconciliation performed to show the total pensions paid figure agrees with the ledger. Therefore, the total pensions paid figure cannot be tied back to the ledger.</p> <p>The HRSS manager advised that there has never been a reconciliation performed between pensions paid figure and the financial ledger.</p> <p>A monthly report run for differences in payments from one month to the next is available but unfortunately due to work pressures and staff shortages this has not been completed for this financial year. This would be an effective control over the pensions paid figure on a month by month basis.</p>	<p>We carried out analytical and substantive procedures to gain assurance that the total pension paid figure is not materially misstated.</p>  Recommendation 2 (refer appendix 1 , action plan)

Source: Audit Scotland

How we evaluate misstatements

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

29. It is our responsibility to request that all errors above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

30. One adjustment was made to the unaudited accounts arising from our audit which exceeded our reporting threshold. The Pension Fund's main bank account balance of £2.6m was included under investment assets in the unaudited accounts. This has been amended in the audited accounts to classify the balance under current assets. There was no impact on the closing net assets figure for the fund.

Amendments to the accounts arising from legal and other judgements

31. In December 2018 the Court of Appeal upheld a claim from firefighters and judges that changes to their pension schemes were discriminatory based on age. The UK Government sought leave to appeal the decision (commonly known as the McCloud Ruling) to the Supreme Court however this was denied at the end of June 2019, after the unaudited accounts were prepared. This ruling will impact on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.

32. Following the decision, the Fund requested a revised IAS 26 report from the Fund actuary in order to quantify the increase in estimated liabilities as a result of the ruling. This revised report estimated the actuarial present value of promised retirement benefits as £941million for Scottish Borders Council Pension Fund an increase of £6 million. This revised assessment did not have an impact on the primary

financial statements of the Fund, however the relevant disclosure notes in the audited accounts were updated to include the revised values of promised retirement benefits.

Objections

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. This must remain on the website throughout the inspection period. The notice for the Fund was published on the website of the administering authority (Scottish Borders Council) and complies with the regulations. No objections were received to the Fund accounts.

Follow up of prior year recommendations

33. There has been good progress in implementing our prior year audit recommendations. Out of 7 recommendations, 5 have been actioned. There has been an improvement in the working papers provided to us from management. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

The fund has appropriate and effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.

Systems of internal control operated appropriately and effectively in 2018/19.

Scottish Borders Council Pension Fund achieved a return of 7.6%, slightly below the benchmark of 7.7%, however the rolling three-year performance of 11.3% is above the benchmark of 10%.

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

Financial performance in 2018/19

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

35. The Fund's performance in 2018/19 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, liabilities, funding level and investment performance

Increase in net assets	Increase in estimated liabilities	Funding level	Investment performance
 £48 million (+6.5%)	 £91 million (+9.7%)	 114% 2017 Funding valuation	 7.6% Return on investments 2018/19
£733 million Closing net assets	£935 million Closing liabilities	101% 2014 Funding Valuation	9.1% Return on investments over 5 years

Source: 2018/19 Scottish Borders Pension Fund unaudited annual report and accounts

- 36.** The net assets of the Fund increased to £733 million at 31 March 2019 from £685 million at 31 March 2018. This increase of £48 million (6.5%) reflected the volatile and variable market conditions faced by investors over the year.
- 37.** During 2018/19 contributions to the Fund amounted to some £19.4 million. This was less than the benefits paid out which totalled £22.8 million. This is the sixth year of benefits paid exceeding contributions into the Fund, signalling a maturing of the Fund.
- 38.** At the same time the Fund's Actuary, Hymans Robertson, estimated that pension liabilities had risen from £845 million at 31 March 2018 to £941 million at 31 March 2019 (£96 million increase). The liabilities have been estimated by rolling forward cash flows and investment returns from the 2017 triennial valuation.
- 39.** Although the Fund continues to perform well, management are aware that a number of challenges face the Fund and the wider environment in which it operates. A number of issues may increase pressures on the future funding position, including economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination within pension schemes are also likely to impact on the funding position in the coming years.
- 40.** The Fund has considered these challenges and continues to monitor risks through the risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to pay its liabilities.

Financial management arrangements

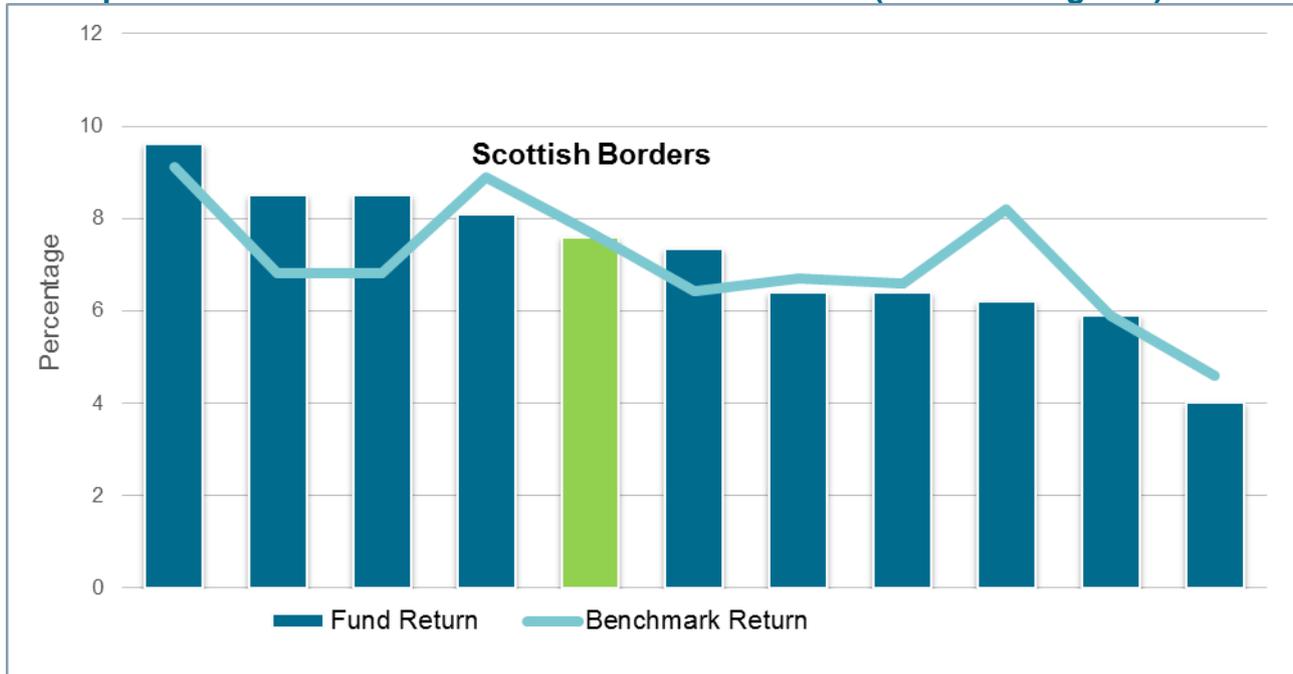
- 41.** The Chief Financial Officer for Scottish Borders Council is the proper officer responsible for Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Fund. We consider these to be comprehensive and promote good financial management.
- 42.** 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 enough 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. In addition and in line with the Training Policy, 100% of the Pensions Committee and 75% of the Board, have completed the Pension Regulators Trustee Toolkit for defined benefit schemes.
- 43.** 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.

Investment performance in 2018/19

- 44.** Financial year 2018/19 has been a relatively positive year for investment performance for most LGPS pension funds across Scotland as illustrated in [Exhibit 5](#).

Exhibit 5

LGPS pension funds – Net return on investment 2018/19 (unaudited figures)



Source: 2018/19 LGPS pension fund unaudited financial statements

45. Most funds failed to achieve their benchmarks in 2018/19. Scottish Borders Council Pension Fund achieved a return of 7.6% on its investments. This is slightly below the fund benchmark of 7.7% for 2018/19. The fund has rolling three-year performance of 11.3% which is above the benchmark of 10%.

46. We conclude that the Fund's overall performance is good. It has just marginally underperformed this year by 0.1%. Rolling 5-year performance for the fund is 9.1% against a benchmark of 8.2%. Management are continuing 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

47. As part of our audit we identify and inspect the key internal controls in those accounting. Our objective is to gain assurance that Scottish Borders Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. The Pension Fund uses some of the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems.

48. Our findings were included in our management report which was presented to the Council's Audit and Scrutiny Committee on 25 June 2019. We concluded that the key controls were operating satisfactory.

Internal audit

49. Internal Audit provides the Fund with independent assurance on the fund's overall risk management, internal control and corporate governance processes. We reviewed the fund's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit.

50. To minimise duplication of effort we use the work of Internal Audit wherever possible. In 2018/19 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.

Standards of conduct for prevention and detection of fraud and error

51. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

52. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's Scottish Borders Council's arrangements for the prevention and detection of fraud and corruption. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers.

53. We concluded that appropriate arrangements were in place for preventing and detecting fraud and corruption in 2018/19. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability



Main judgement

The 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%.

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

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

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.

Funding position and financial planning

54. The March 2017 triennial valuation reports that the fund assets were enough 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 approved in September 2018.

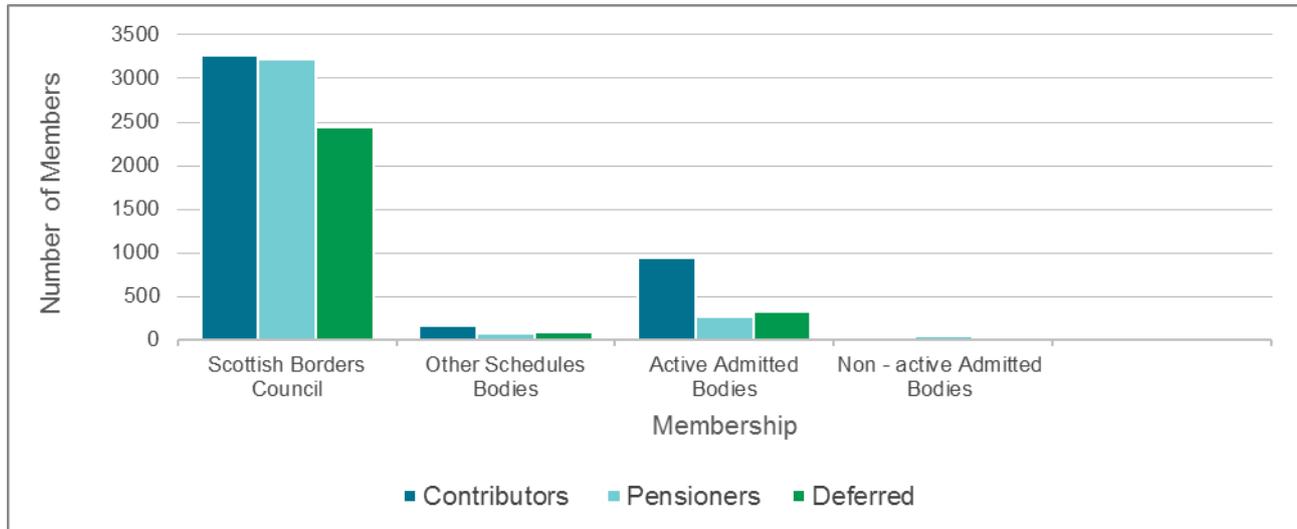
55. The fund reported net withdrawals of £3.6million in 2018/19. Management actively monitor its cash-flow position and report the position to every meeting of the Pension Fund Committee.

56. 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

57. The pension fund is a multi-employer fund with 1 Local Authority (Scottish Borders Council), and 17 other employers. The current membership profile is shown at [Exhibit 6](#). The proportion of pensioners relative to active contributing members further increased in 2018/19.

Exhibit 6 Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2018/19 audited financial statements

58. Membership of the fund increased from 10,667 to 10,961 members at 31 March 2019; an increase in members of 2.6%.

59. The Fund gives its members a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each member's life. In addition to this, the fund must also meet any survivor benefits which have been awarded on death of members. It is important that the fund maintains the capacity to meet the current and future needs of its members.

Contributions

60. 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 7](#).

Exhibit 7 Contributions in 2018/19

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
Total contributions	14.1	0.7	4.5	19.4

Source: Scottish Borders Council Pension Fund 2018/19 unaudited financial statements

EU Withdrawal

61. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

62. Management continue to prepare for the UK's withdrawal from the European Union. The external fund managers, who are responsible for managing investments, have appropriate arrangements in place to ensure regulatory requirements will continue to be met following Brexit.

63. Management recognise 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.

64. The Pension Regulator and Pensions and Lifetime Savings Association (PSLA) have issued briefing notes highlighting the key areas Pension Funds should consider when preparing for Brexit. The fund has considered these areas and undertaken actions to complete the areas highlighted.

65. Management should continue to monitor the wider impact of EU withdrawal on the Fund and its wider environment.

Part 4

Governance and transparency



Main judgements

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

Committee papers and minutes of meetings of the Pension Fund Committee are available on the Scottish Borders Council's website. There is also a dedicated website for the fund, making available a wide range of important information relevant to members of the fund.

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.

Governance arrangements

66. Scottish Borders Council is the administering body for Scottish Borders Council 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 Local Government Pension Scheme.

67. 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. The Training Policy for the Fund sets out targets for members of the Pension Fund Board and Committee to attend at least two training events each year. Only 72% of members of the Pension Fund Committee met the training target and 87% of the Board met the training target.



Recommendation 5

Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.

Action Plan Appendix 1, Recommendation 5

68. The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. In the case of Scottish Borders Pension Fund, the arrangement is for the Council's Audit and Scrutiny Committee to review the effectiveness of internal control arrangements and to recommend the annual report and accounts for approval by the Council.

69. 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.

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

Openness and transparency

71. Openness and transparency mean that the public members of the pension fund have access to understandable, relevant and timely information about how the fund is taking decisions and how it is using resources.

72. 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.

73. 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.

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

Pensions Regulator Public Service Code

75. There were no breaches of the Code that required to be reported to the Pensions Regulator in 2018/19.

Review of the future structure of Local Government Pension Scheme in Scotland

76. The Scottish Scheme Advisory Board is undertaking a review of the future structure of the Local Government Pension Scheme in Scotland. Four options have been identified by the Board:

- Retain the current structure of eleven funds
- Promote cooperation in investment and administration between the eleven funds
- Pool investments between the funds
- Merge the funds into one or more funds.

77. Stakeholder views were sought through a consultation process and the Fund submitted a response in December 2018. In their response to the consultation the Pension Fund Committee and Pension Fund Board strongly favoured collaboration given risks and uncertainty associated with other options. Following the consultation process, a draft report incorporating stakeholder views was considered at the Scheme Advisory Board meeting on 24 April 2019. The outcome of this and any ministerial consideration, is awaited.

Part 5

Value for money



Main judgements

The 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.

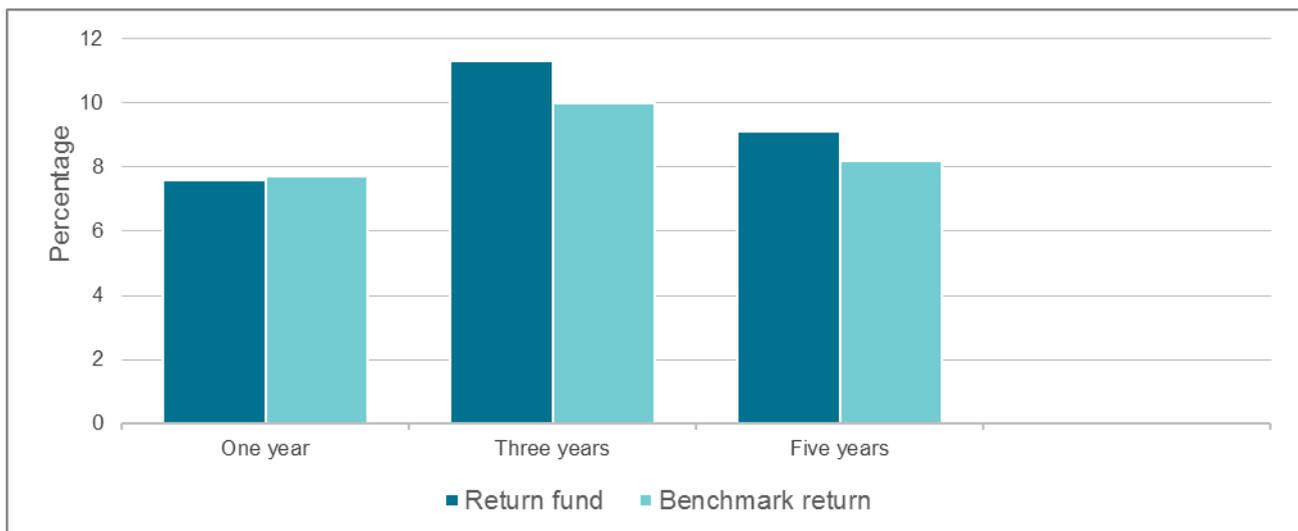
Value for money is concerned with using resources effectively and continually improving services.

Investment performance

78. 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.

79. [Exhibit 8](#) shows the fund's performance against benchmark over one, three and five years.

Exhibit 8 Fund investment performance



Source: KPMG 2019 Quarter 1 Investment Performance Report

80. Over the medium to longer term the Fund has outperformed its benchmark over three and five years.

81. As shown earlier in [Exhibit 5](#) net investment performance compared favourably with other LGPS Funds in Scotland.

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

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

84. The investment strategy of the Fund is included in the Statement of Investment Principles which was updated in September 2018. 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 48% equities, a 10% decrease from 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.

85. 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 overweight in equities (48% at 31 March 2019 against a target of 40%). The Fund is underweight in Long Lease Property by 2%, underweight in Alternatives by 4% and overweight in Bonds by 6%. Management are working with the Investment Consultant to identify appropriate opportunities to invest in line with the agreed strategy.

Management expenses

86. 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 oversight and governance costs.

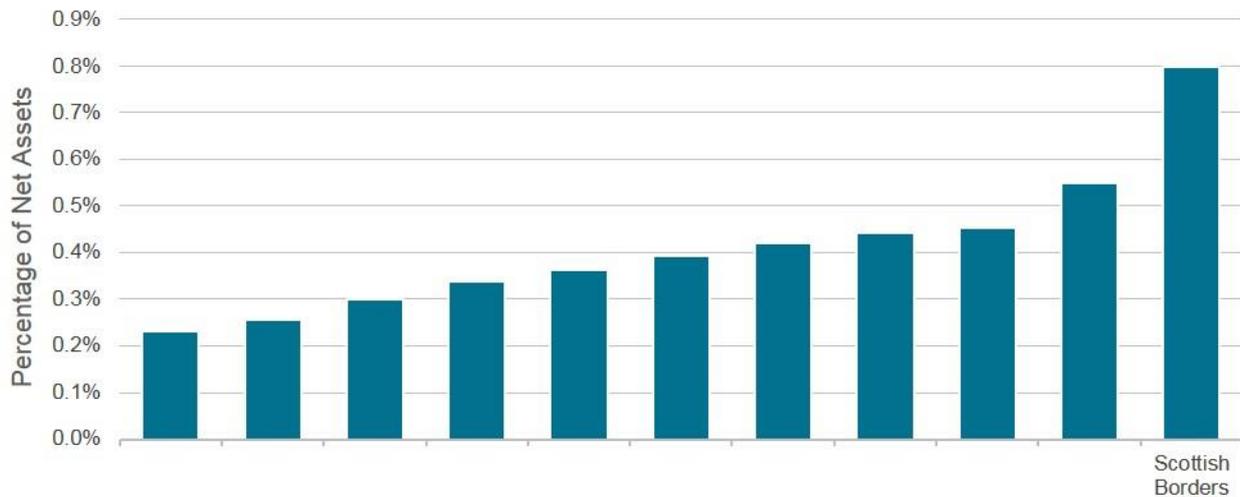
87. CIPFA published revised guidance on local government pension scheme management expenses (LGPS). This guidance sets out a framework for the reporting of investment management costs and was applied from 2016/17. The new guidance recommends that only expenses that can be directly controlled by the fund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

88. 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.

89. Investment management expenses have decreased from £8.2m in 2017/18 to £5.8m in 2018/19. The large decrease is mainly driven by a decrease in transaction costs. For 2018/19, transactions costs are £1 million, a decrease of £3 million compared to last year. This is due to one off transaction costs taking place in 2017/18.

90. Exhibit 10 shows figures for total management expenses relative to net assets across the Scottish Local Government Pension Funds, with investment management expenses for the Scottish Borders Council Pension Fund highlighted. The Fund had the highest percentage in Scotland; however, variances in investment strategies and administrative structures (e.g. in-house staff vs. outsourced services) will impact on the amount of external investment management expertise purchased.

Exhibit 9 Investment Management Expenses



Source: 2018/19 LGPS pension fund unaudited financial statements

91. We have concluded that the fund has satisfactory arrangements in place for monitoring investment performance and scrutinising investment management expenses. However, CIPFA guidance on management expenses has enabled greater transparency in investment management fee information including the development of benchmarking information. Management should make use of the additional information now available on the cost of investment management services to make informed decisions on value for money, as well as the performance of managers.

Administrative expenses

92. 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.

93. 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.

National performance audit reports

94. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, we published reports which might be of direct interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Key reconciliations are not being performed</p> <p>On selecting a sample of debtors and creditors for further testing, we found that several balance sheet codes (e.g. pension suspense accounts) are not being reviewed or reconciled.</p> <p>Risk</p> <p>There is a risk of uncorrected errors not being identified on a timely basis.</p>	<p>Management should perform monthly reconciliations across payroll to ensure all balances are investigated and adjusted when necessary.</p> <p>Exhibit 3</p>	<p>Agreed. Steps to reconciliations have already been taken reintroduce monthly.</p> <p>Responsible officer</p> <p>HR Shared Services manager</p> <p>Agreed date</p> <p>September 2019</p>
2	<p>Reconciliation of pensions paid figure</p> <p>There is no monetary reconciliation performed to show the total pensions paid figure agrees with the ledger. Therefore, the total pensions paid figure cannot be tied back to the ledger.</p> <p>The HRSS manager advised that there has never been a reconciliation performed between pensions paid figure and the financial ledger.</p> <p>A monthly report run for differences in payments from one month to the next is available but unfortunately due to work pressures and staff shortages this has not been completed for this financial year. This would be an effective control over the pensions paid figure on a month by month basis.</p>	<p>The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.</p> <p>Exhibit 3</p>	<p>Agreed. Steps to introduce such monthly reconciliations have already been taken by management.</p> <p>Responsible officer</p> <p>HR Shared Services manager</p> <p>Agreed date</p> <p>December 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk</p> <p>The figures in the financial ledger could be under or overstated.</p>		
3	<p>Financial & HR Capacity</p> <p>We found that staff capacity is still showing signs of pressure. There is dependency on key staff in Finance and in Human Resources Shared Services (HRSS).</p> <p>Strain on staff resources in HRSS has meant key reconciliations and working papers were not available or prepared to a level suitable for audit from HRSS.</p>	<p>Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.</p> <p>Exhibit 3</p>	<p>Agreed. A review of capacity will be undertaken.</p> <p>Responsible officers</p> <p>Service Director HR and Chief Financial Officer</p> <p>Agreed date</p> <p>31 December 2019</p>
4	<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 deteriorate 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>Agreed. Controls will be reviewed signed and dated by management on a quarterly basis.</p> <p>Responsible officer</p> <p>HR Shared Services manager.</p> <p>Agreed date</p> <p>31 December 2019</p>
5	<p>Training and development</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. During 2018/19 28% of Committee members and 13% Board members did not attend two or more training sessions.</p> <p>Risk</p> <p>Members do not have or maintain the expertise required to monitor and scrutinise Pension Fund performance effectively.</p>	<p>Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.</p> <p>Paragraph 67</p>	<p>Agreed. Members of the Pension Fund Committee and Board are required to complete the Pensions Regulator's Trustee Toolkit training for DB schemes. Committee and Board members are encouraged to attend the various training events run by the Fund during the year. Members will be written to remind them of the requirement to keep their knowledge and skills of pensions related matters current.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			Responsible officer Pensions and Investments Manager Agreed date 30 September 2019

Follow up of prior year recommendations

6	<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>We confirmed that workings papers provided to us by the finance team for the audit were of good quality. The finance team has greatly improved the process of creation working papers. The working papers were linked directly to the custodian when applicable.</p> <p>Action Complete.</p>
7	<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>After discussion with management, we conclude that this issue will always occur due to timing differences.</p> <p>The working papers provided confirmed adjustments were required to the final valuations. These adjustments had been made by management, with reference to the relevant fund manager report. This should be continued going forward to ensure the values reported in the accounts are based on the most up to date information available.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing Action Complete.
8	<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>We confirmed a process has now been developed to ensure the existence of overseas pensioners. Life certificates have been sent to overseas pensioners and all have been received back. This is a process which will now happen on a yearly basis.</p> <p>Action Complete.</p>
9	<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</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>We confirmed that all notifications are kept and recorded.</p> <p>Action Complete.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>		
10	<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 deteriorate 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>See Action Plan Point 4 above</p>
11	<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>We confirmed that reviews are now carried out. When data is entered, this is further reviewed by another member of staff before it is changed in the system.</p> <p>Action Complete.</p>
12	<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>See Action Plan Point 3 above</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>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 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 on prepayments and accruals.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>From controls and substantive testing carried out in year, there was no evidence of management override of controls.</p>
<p>2 Risk of fraud over expenditure</p> <p>ISA 240 presumes a risk of fraud over income. This has been rebutted because of the low risk of fraud over contributions and investment income receivable to the Fund as a result of effective controls and the straight forward nature of contributions processing.</p> <p>This risk is expanded to include the risk of fraud over expenditure in the public sector by the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised).</p> <p>The Fund makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>	<p>Evaluation of the effectiveness of systems for expenditure recognition and recording</p> <p>Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the custodian.</p> <p>Analytical procedures on expenditure streams.</p> <p>Substantive testing of expenditure.</p>	<p>Our work did not identify any issues.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Estimation, judgements and Classification</p> <p>There is a significant degree of subjectivity in the measurement and classification of certain investments and the actuarial valuation. Investments include pooled funds, where valuations involve the application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>This subjectivity entails a risk of misstatement in the financial statements. Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19, increasing the risk that assumptions are not appropriate for the Fund's circumstances.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments.</p> <p>Confirmation of valuations to valuation reports and/ or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary.</p> <p>Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2018/19.</p>	<p>From our 'review of the work of an expert' and our substantive testing we did not identify any issues in relation to this risk.</p>

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

<p>4 Governance and transparency</p> <p>Narrative in the disclosures of the accounts need to keep up with Scheme requirements to ensure transparency of arrangements. Examples include: reporting the Career Average Revalued Earnings (CARE) scheme as the extant scheme, and reporting which members are included as a result of Transfer of Undertakings Protection of Employment (TUPE) transfers.</p>	<p>Review the governance disclosures in the annual report and accounts.</p> <p>Assess whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively.</p> <p>Determine whether there is effective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting</p> <p>Review the consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.</p>	<p>Our work did not identify any issues.</p>
---	--	--

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Reports of relevant interest

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Scottish Borders Council Pension Fund

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

This page is intentionally left blank

Audit and Scrutiny Committee

Scottish Borders Council, Newtown St Boswells, TD6 0SA

23 September 2019

Scottish Borders Council Pension Fund Audit of 2018/19 annual report and accounts

Independent auditor's report

Our audit work on the 2018/19 annual accounts is now substantially 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 26 September (the proposed report is attached at Appendix A).

Annual audit report

1. 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 2018/19 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.
2. 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.
3. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

4. 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.
5. We have no unadjusted misstatements to be corrected.

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 financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 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 template is attached at **Appendix B**. This should be 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 as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

Report on the audit of the annual accounts

Opinion on annual accounts

I certify that I have audited the annual accounts in the annual report and accounts of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying annual accounts:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 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 2018/19 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)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. 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 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.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Financial Officer and Scottish Borders Council Audit and 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 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 financial statements

My objectives are to obtain 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 on the basis of 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 report

The Chief Financial Officer is responsible for the other information in the annual report. 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

Opinions on 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 2018.

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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

September 2019

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 Pension Fund Annual Accounts 2018/19

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 2019 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 Pension Fund's annual accounts for the year ended 31 March 2019.

General

3. Scottish Borders Council Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2018/19 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 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 2018/19 (2018/19 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 Pension Fund at 31 March 2019 and the transactions for 2018/19.

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 2018/19 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's 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 2019, 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 2019. 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

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

12. All liabilities at 31 March 2019 of which I am aware have been recognised in the annual accounts.

Actuarial Triennial Valuation

13. The pension assumptions made by the actuary in the actuarial triennial valuations on the funds have been reviewed and I can confirm that they are consistent with management's own view.

Events Subsequent to the Date of the Net Assets Statements

14. Other than the McCloud ruling disclosed with the Post Balance Sheet Events note in the accounts, there have been no material events since the date of the Net Assets Statements which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
15. Since the date of the Net Assets Statements no events or transactions have occurred, which though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Management commentary

16. 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

17. I acknowledge, as officer with the responsibility for the proper administration of the funds' financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. The funds have undertaken a review of the system of internal control during 2018/19 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.
18. I confirm that the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Also, I have reviewed the Governance Compliance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2019, which require to be reflected.

Related Party Transactions

19. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2018/19 accounting code. I have made available to you the identity of all the funds' related parties and all the related party relationships and transactions of which I am aware.

Fraud

20. 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.

21. There have been no irregularities involving management or employees who have a significant role in internal controls 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.

Yours sincerely

Chief Financial Officer

Date

This page is intentionally left blank

SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2018/19

Report by Chief Financial Officer
AUDIT & SCRUTINY COMMITTEE

23 SEPTEMBER 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report presents Members with copies of the Council's audited Annual Accounts for 2018/19.**
- 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.
- 1.3 2018/19 represents the third 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 two 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, Lowood Tweedbank Ltd and Scottish Borders Council's Pension Fund have been presented to the Audit and Scrutiny Committee prior to signature.
- 1.7 KPMG has concluded their audit of SB Cares, SB Supports and Bridge Homes and have provided their audit opinion. KPMG has concluded that the ongoing review of SBC Cares creates material uncertainty with regard to the status of SB Cares as a going concern and has included this comment in its audit opinion. Late in the audit process KPMG has identified a consistency issue with the actuarial valuation of pension fund liabilities for SB Cares. Regarding Bridge Homes KPMG have raised no issues and no matters to report.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit & Scrutiny Committee recommend the following accounts for officer signature and Council approval:**
- (a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2019;**
 - (b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2019;**
 - (c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2019;**
 - (d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2019;**
 - (e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2019;**
 - (f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2019;**
 - (g) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2019;**
 - (h) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2019;**
 - (i) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2019;**
 - (j) the SB Supports LLP audited Annual Accounts for the year to 31 March 2019;**
 - (k) the SB Cares LLP audited Annual Accounts for the year to the 31 March 2019; and**
 - (l) Lowood Tweedbank Ltd Annual Accounts for the 30th November 2018 to the 31 March 2019 (part year).**

3 BACKGROUND

- 3.1 The various sets of unaudited accounts for 2018/19 were submitted to Audit Scotland and KPMG, the External Auditors, before the statutory deadline of 30 June 2019, following presentation of the draft accounts to the Audit and Scrutiny Committee at the June 2019 meeting. External Auditors began their detailed audit work in July 2019 and this was completed by the beginning of September 2019.
- 3.2 As part of the statutory requirements the Council is required to advise the public of their right to inspect and object to the various sets of accounts and their supporting papers and make the documents available for inspection. This process was undertaken following the timetable contained in the 2014 Regulations and the inspection period commenced on 1 July 2019. There were 4 objections to the accounts, these related to the Council's purchase of Lowood estate during the year and its measurement and disclosure in the accounts. Audit Scotland confirmed that the estate had been correctly accounted for as an addition in the year and concluded that the accounts were not materially misstated. At the year end the asset was valued in accordance with the accounting policies of the Council, which is in compliance with the Code of Practice on Local Authority Accounting in the UK 2018/19. As no further contractual commitments have been taken out in connection with the development of this site, there is no requirement for Note 12 to disclose future capital plans in connection with this site. Issues with disclosure of the purchase were corrected for the audited accounts. The final management commentary has been amended to reflect narrative around the Lowood purchase.
- 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 2019. As a result this report is being presented to the Audit and Scrutiny Committee at this meeting and is subsequently being presented to the full Council meeting on the 26th September 2019.
- 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's Pension Fund** 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; and
- **Lowood Tweedbank Ltd** Annual Accounts for the 30th November 2018 to the 31 March 2019 (part year).

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 2019. 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 2018/19

- 4.1 Audit Scotland has completed their audits and have provided 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. KPMG has concluded that the ongoing review of SBC Cares creates material uncertainty with regard to the status of SB Cares as a going concern and has included this comment in its audit opinion. Late in the audit process KPMG identified that the actuarial valuation of pension fund liabilities for SB Cares had been undertaken on a different basis from 2017/18 and figures are being revised accordingly. Regarding Bridge Homes KPMG have raised no issues 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 two specific recommendations for improvement. The areas in question are shown in

Appendix 1 "Action Plan 2018/19" of the External Auditor's Annual Audit Report. The areas identified are:

- The Council should carry out timely review of the creditors ledger and reconcile payroll amounts during the year;
- The Council should review the Following the Public Pound guidance to ensure that it is still appropriate and available to relevant staff.

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 five recommendations. The areas in question are shown in Appendix 1 "Action Plan 2018/19" of the External Auditor's Annual Pension Fund Audit Report. The areas identified are:

- Management should perform monthly reconciliations across payroll to ensure all balances are investigated and adjusted when necessary.
- The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.
- Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.
- Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.
- Procedures should be put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained.

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: 25 June 2019 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 Financial Services 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 2019



Scottish Borders Council

Annual Accounts 2018/19

Foreword by the Leader of the Council	3
Management Commentary	4
Statement of Responsibilities	29
Independent auditor's report	30
Annual Governance Statement 2018/19	33
Remuneration Report	38
Movement in Reserves Statement.....	48
Comprehensive Income and Expenditure Statement.....	49
Balance Sheet.....	51
Cash Flow Statement.....	53
Notes to the Core Financial Statements	54
Supplementary Financial Statements	108
Council Tax Income Account	108
Non-Domestic Rate Income Account	109
Trust Funds	111
Common Good Funds	113
Group Accounts.....	115
Notes to the Group Accounts.....	123
Glossary of Terms	124

Foreword by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2019. 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 2018/19.

During 2018/19 Scottish Borders Council has achieved significantly higher Financial Plan savings than ever before whilst maintaining frontline services for communities wherever possible with £16.4m delivered in year, £11.7m permanently. Capital investment in the area is also significantly higher than that in 2017/18.

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 2018/19;
- key aspects of our performance during 2018/19; and
- our plans for the future.

Highlights of 2018/19

Against a very difficult financial background, the Council has achieved the following during 2018/19:

- ✓ Achieved £16.4m of Financial Plan savings, £11.7m of which were on a permanent basis;
- ✓ Delivered £257.5m of revenue spending within budget;
- ✓ Delivered Capital Investment of £47.8m in schools, flood protection, roads, lighting and other assets;

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

Our Plans for 2019/20

The next year presents many opportunities for the Council including:

- the launch of a revised 5 years programme of transformation across the Council – called 'Fit for 2024'. This programme has the aim of delivering a Council that is adaptable, efficient and effective, and one ultimately capable of not only meeting the challenges ahead, but of fully optimising outcomes for the citizens and communities for which it is responsible.
- the launch of a Communities Fund to create more flexibility, that supports and facilitates communities to come up with creative solutions to local priorities and also builds community capacity in line with participatory budgeting.
- preparatory work being done around digital developments which will allow significant transformation activity going forward.

During the period from 2013/14 to 2018/19 the Council's approach to longer term financial planning has delivered savings of £47m alongside significant improvements in performance set out on pages 15 – 26.

Councillor Shona Haslam

**Leader
Scottish Borders Council**

Management Commentary

Introduction

This management commentary provides a summary of Scottish Borders Council's financial performance for the year and how this has supported delivery of the 2018-2023 Corporate Plan. It also outlines the financial strategy and the challenges the Council faces in future years in delivering its objectives for the Scottish Borders.

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 2018/19

Outdoor Community Spaces

The Council is embarking on a significant investment in community outdoor facilities, specifically including children's play parks skate parks and small wheels projects youth shelters and facilities for increasing health and well-being in older people. The initial investment is around destination play parks with Harestanes including for the first time in the Scottish borders, a wheelchair swing.



Pool cars

After a successful trial of pool cars at Council HQ, an expanded 55 car fleet has now been rolled out across the Borders. The expanded fleet will also be available for community use. There are currently 523 active members of the scheme with over 5,000 bookings to date.



Hawick Flood Protection works

Detailed design continued on the £60m programme of work to provide 1 in 75 year flood protection to Hawick.

Business World

The work to fully embed Business World ERP, the new integrated Finance, HR and Procurement system, continued during the year with the developments and roll out of new functionality, training and the upgrade to Milestone 7.2.

Early Years expansion

During 2018/19 expansion to 1140 hours has taken place in 13 early years settings. The authority has invested in refurbishment, extension and new-build of early learning settings to allow additional hours of care to be provided.

Lowood estate

During 2018/19 the Council took the strategic decision to purchase the Lowood estate for development purposes. The 44-hectare site will provide up to 350 jobs and an estimated Gross Added Value (GVA) of £150million over 30 years.



Strategic Housing Improvement Plan (SHIP)

During the year the Council and its strategic partners delivered 191 affordable housing units through the SHIP exceeding our annual delivery target.



Waste Management

A new residual waste contract was put out to tender during 2018/19 coinciding with the opening of the new Waste Transfer Station in the summer of 2019 and the decommissioning of the landfill site at Easter Langlee.

Integration Joint Board

During 2018/19 the Council opened Garden View as a discharge to assess unit which significantly assisted both with the management of delayed discharges and the delivery of the NHS winter plan.

Jedburgh Intergenerational Campus

The new £34m campus remains on track for opening in April 2020.

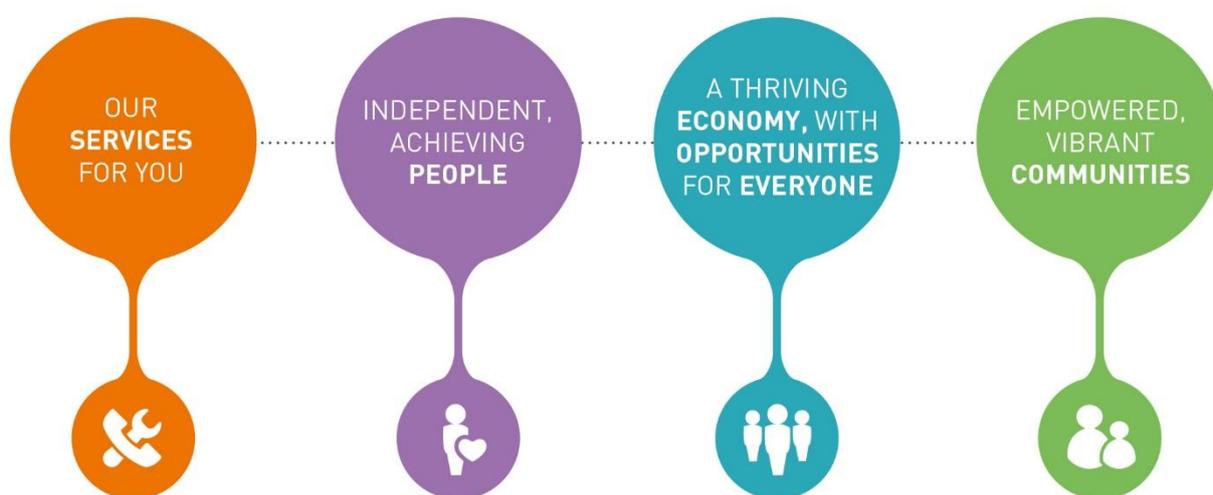
Strategic Direction

Corporate Plan

The Corporate Plan sets a direction for Scottish Borders Council for the next 5 years (2018 to 2023) in order to:

- make the most of the opportunities we now have
- tackle the challenges we face
- take account of what our new Councillors want to achieve for the Scottish Borders
- ensure we respond to national policies and other statutory requirements.

The Council is committed to taking action to reshape and improve our services and ensure the Council continues to have a positive effect on quality of life, well-being, on our economy and in communities. This commitment is reflected over 4 themes:



A key feature of this new Corporate Plan is as well as outlining what the Council is going to do to improve services, we are asking individuals, families, businesses, partners and communities to **'play your part'**. This joint working approach offers the best opportunity for success. As the Council's delivers on each of the themes above over the next 5 years, the Council will consult, involve and engage with citizens, communities and partners and, increasingly, we will work to create solutions with you and your local area, through Area Partnerships.



Management Commentary

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 provide good value** for money.

Risk

A Corporate Financial Risk Register was used as the basis for setting reserve levels in 2018/19 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 2018/19 Risk Register was assessed to be £11.063m and the projected useable General Fund balance, at £6.315m, was sufficient to cover 57% 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. 2018/19 represented the first year of the new 5 year revenue Financial Plan, the first plan was published in 2013/14. The plans have been amended and updated each year since 2013/14 and to date savings of £47m have been delivered in a planned manner. Despite the resource challenges facing the Council and wider public services the approach to financial planning has so far delivered balanced budgets and small underspends in each year. 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

Management Commentary

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.

From 2019/20 a Capital Investment Strategy (CIS), which highlights the capital investment priorities and explain how these priorities will assist with the delivery of the Council's Corporate Plan will also be approved with the budget papers in February. The CIS is structured to reflect the themes of this Corporate Plan. The document complements the Council's 10 year capital investment plan 2019 – 2029 and the Treasury Strategy.

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:

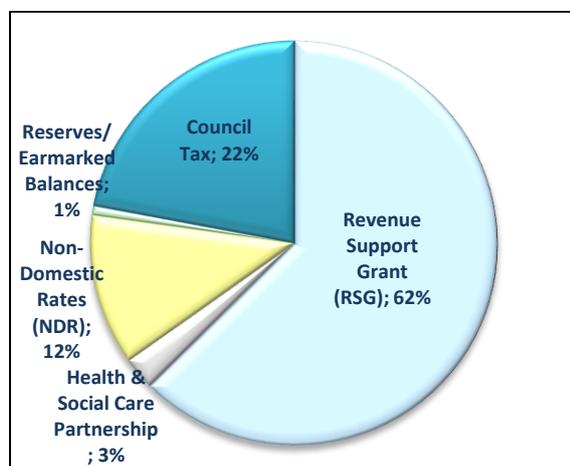
- providing effective support to embedding equalities and human rights into the Council's corporate, business planning, policy and performance processes;
- giving advice and support on equalities and human rights to the Scottish Borders Community Planning Partnership;
- providing operational support 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.

How are we are doing? - Financial Performance

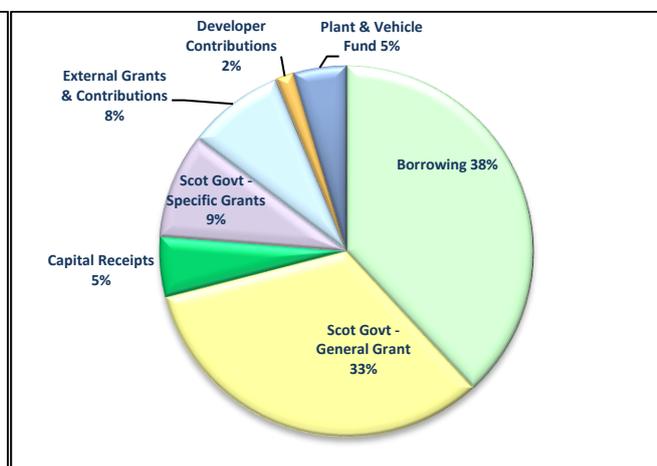
2018/19 Financial Resources Available

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on recurring day to day costs of 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.

Sources of Revenue Funding



Sources of Capital Funding



Management Commentary

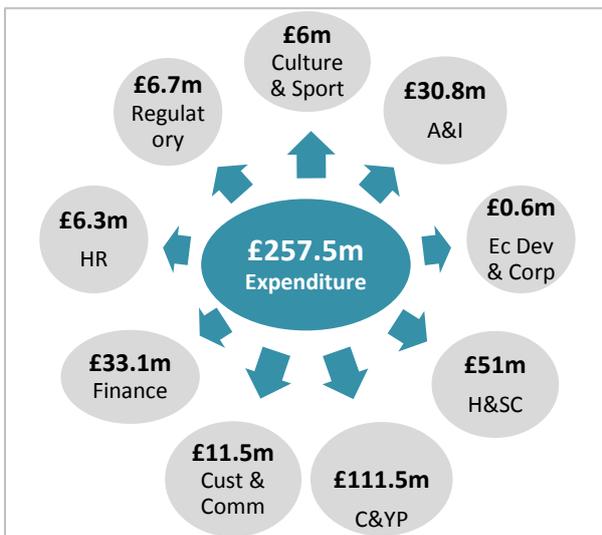
Financial Position at 31 March 2019

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.

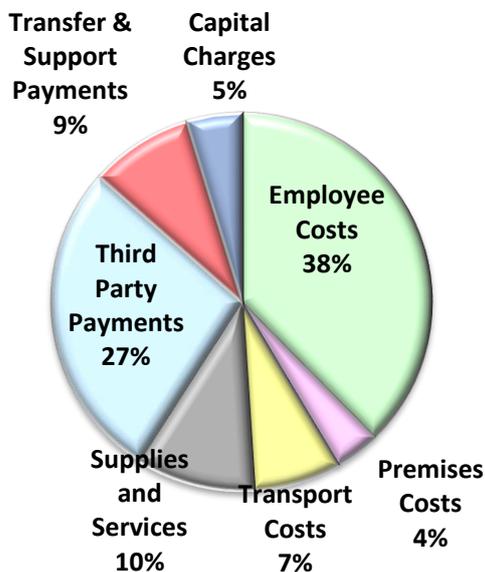
Revenue

The actual outturn for the financial year 2018/19 was a revenue expenditure of £257.5m representing a net underspend of £1.302m (0.5%) against the revised budget. Page 11 provides more analysis.

The following chart analyses the revenue spend by Council department:

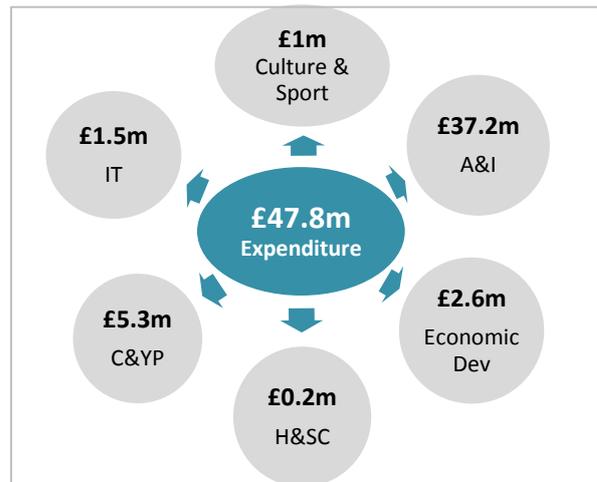


Revenue net expenditure for the year includes income of £135.2m, and gross expenditure of £392.7m as analysed in the chart below:



Capital

The actual outturn for the financial year 2018/19 was a capital expenditure of £47.8m representing a favourable timing movement of £16.7m (25%) against the revised budget.



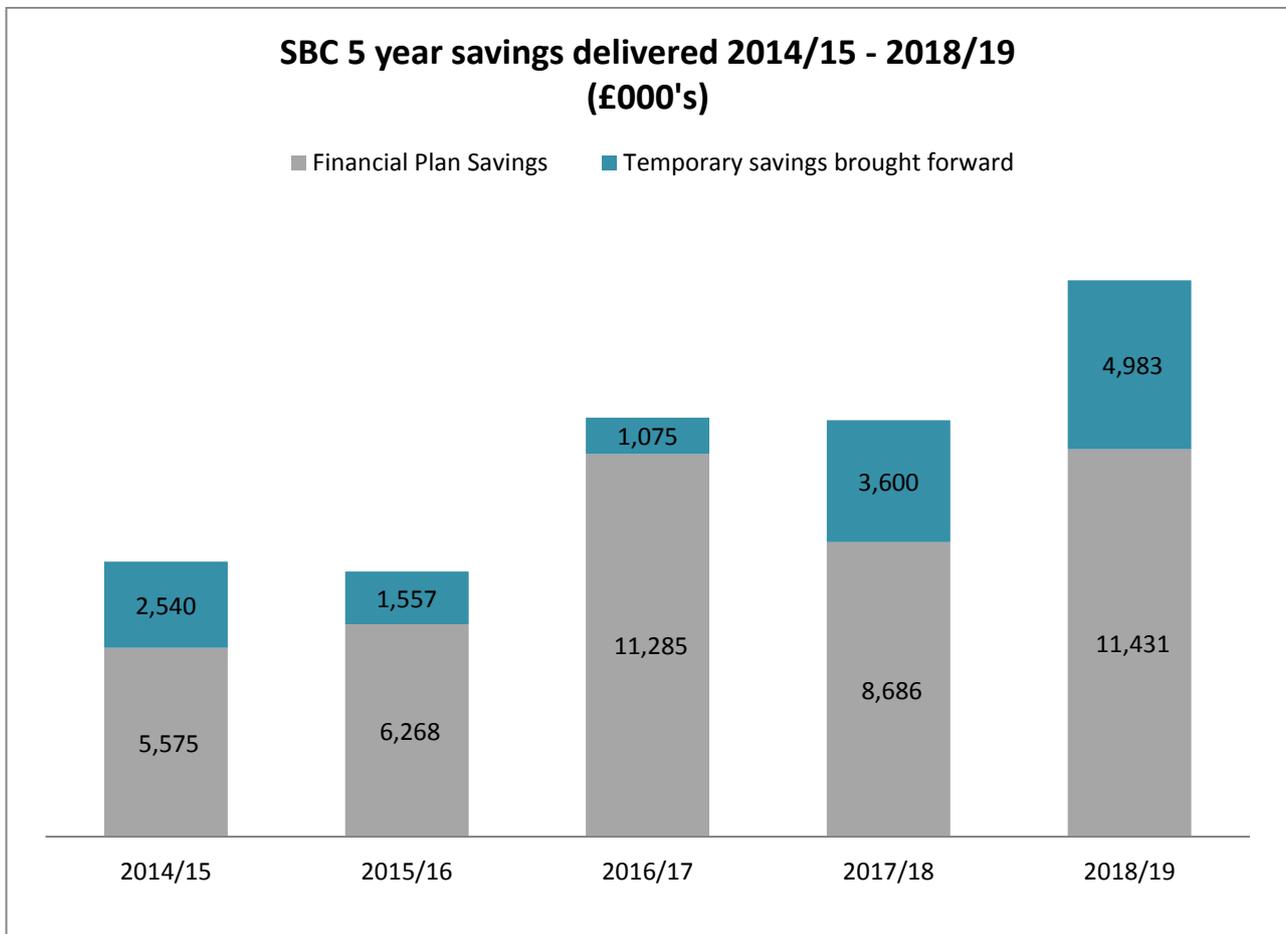
The capital programme delivered significant investment in the Scottish Borders during 2018/19 and the following table highlights some of the major projects undertaken:

Asset & Infrastructure	
• Roads & Bridge Maintenance	£10.4m
• Flood Protection Works	£5.6m
• Waste Infrastructure	£3.9m
• Land & Property Infrastructure	£14.7m
• Plant & Vehicle	£2.6m
Children & Young People	
• Early Learning & Childcare	£1.0m
• Broomlands Primary School	£0.4m
• Jedburgh Intergenerational Campus	£1.6m
• School Estate Block	£2.2m
IT/Econ Dev/Culture & Sport	
• Central Borders Business Park	£1.0m
• Great Tapestry of Scotland	£0.3m
• ICT Transformation	£1.5m
• Culture & Heritage	£0.9m
• Private Sector Housing adaptations	£0.5m
• Hawick regeneration	£0.5m

Management Commentary

Delivery of Targeted Savings

Overall, Financial Plan savings of £16.414m were delivered during 2018/19 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 £16.414m savings delivered in 2018/19, £11.656m (71%) were delivered permanently. The chart below highlights the increasing level of targeted savings being delivered within the Council on an ongoing basis, demonstrating the scale of change undertaken within the Council over the last 5 years. The savings are categorised over those established as part of the Financial Plan in each year and those brought forward from previous years for permanent delivery. It should be noted, as shown below, that a significantly greater level of savings was required in 2018/19 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 2019/20 and beyond.



Management Commentary

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 49 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 2018/19 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2019. This results in the (statutory accounting) adjusted net cost of services of £279.7m compared with the reported departmental net cost of services of £257.5m. Note 5, page 69 provides additional analysis of the movement between these figures as well as an analysis between the outturn underspend and the deficit shown in the Comprehensive Income and Expenditure Statement.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 49 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 £16.9m.

Other Comprehensive Income and Expenditure

A reduction in the movement on the Deficit on the Provision of Council Services can be largely attributed to the statutory accounting adjustments mentioned above. The movement of (£12.1m) is primarily due to a reduction in impairment and revaluation losses charged to the Comprehensive Income and Expenditure Statement during 2018/19 as part of the rolling revaluation programme.

An Actuarial loss on the Pension Fund Net Assets/Liabilities of £17.0m (actuarial gain of £70.5 gain in 2017/18) has contributed towards a deficit on the Total Comprehensive Income/Expenditure of £30.4m (versus a surplus of £93.6m in 2017/18).

Balance Sheet

During 2018/19 the net asset position has reduced by £30.4m from £91.3m to £60.9m, this is largely attributed to an increase in the pension liability of £36.5m as well as a reduction in short term borrowing of £5m.

During the year the Council acquired the Lowood estate in an off-market sale, the valuation placed on the site is £9.544m which is the value reflected in the Council's balance sheet. The Council expects to recover the purchase price of the estate through the development process and will engage with a range of public and private sector partners to deliver its vision. The estate has been acquired for economic development purposes and will see a massive expansion of land adjacent to the railhead at Tweedbank. The project to develop the Lowood estate and existing sites in Council ownership will ultimately create up to 350 jobs through the development of the current Tweedbank Industrial Estate and is estimated will generate Gross Added Value (GVA) of £150million over 30 years and offer a £2 return on every £1 spent. The redevelopment of Lowood was a major strategic undertaking for the Council which will capitalise on the investment made in the Borders railway. A masterplan has already been completed for the area.

Management Commentary

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 2019 was £199m. Additional long term borrowing was undertaken during the year amounting to £10m, with £8m of this new borrowing used for the early repayment of 2 existing loans. Short term borrowing of £5m outstanding from the 2017/18 year end was repaid in April 2018 with no further requirement for short term borrowing during the 2018/19 year. The average rate of interest paid on outstanding external debt was 4.79%.

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

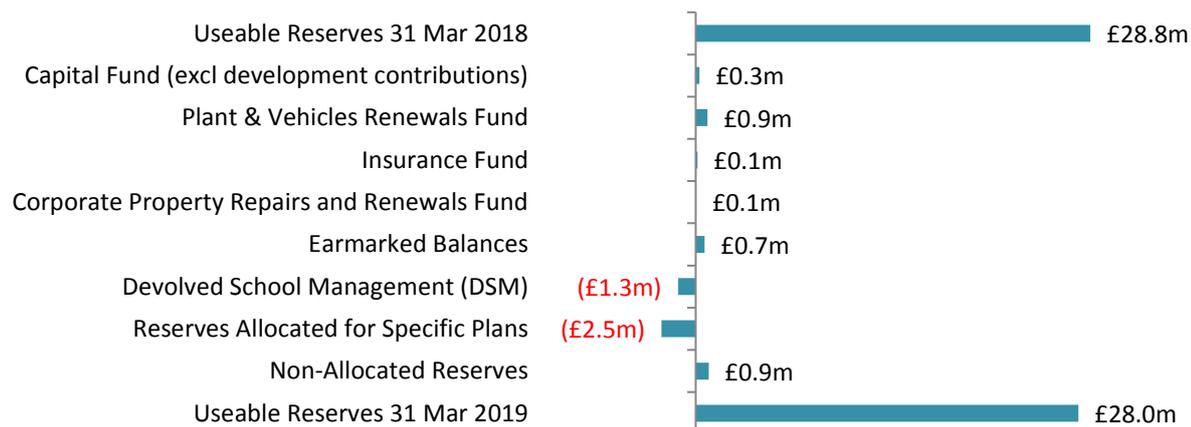
Note 31, page 101 provides additional information on the status of the usable and unusable reserves held by the Council.

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.

Management Commentary

As at 31 March 2019 the total Reserves Balance is £28.0m (£28.8m at 31 March 2018) a net decrease of £1m during the year. The net decrease, as can be seen from the chart below, can be attributed to an increase in the Plant & Vehicle Renewals Fund, net movement in earmarked balances including DSM, the value of which will vary from year to year, planned draw downs from the Allocated reserve and movements in the Non-Allocated reserves which is being maintained in line with the approved Financial Strategy.



Movements within the Allocated and Non-Allocated Reserves during 2018/19 comprised:

Reserves Allocated for Specific Plans - net effect of:

Planned draw down to support 2018/19 Financial Plan	(£2.000m)
Net movement in ER/VS reserve	(£0.351m)
Remove unrequired CFCRs not yet applied to capital	(£0.135m)

Non-Allocated Reserves

Increase to reserves as approved in 2018/19 Financial Plan	£0.677m
2017/18 year end outturn transferred into 2018/19 revenue budget	(£1.029m)
Transfer of statutory accounting balances to ER/VS	(£0.005m)
2018/19 year end outturn	£1.302m

Management Commentary

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2019 with a comparator year ending 31 March 2018. The Group Accounts for 2018/19 can be found from page 115. The Group comprises of the following:

Subsidiaries

- SBC Common Good Funds (*Registered Charity*)
- SBC Trust Funds:
 - *Registered Charities:*
 - SBC Charity Funds (*32 funds*)
 - SBC Community Enhancement Trust
 - SBC Welfare Trust
 - SBC Education Trust
 - Ormiston Trust for Institute *and*
 - 46 Non-Registered Trusts
- Bridge Homes LLP
- SBCares and SB Support LLP
- Live Borders
- Lowood Tweedbank Limited

Associates

- Jedburgh Leisure Facilities Trust

Joint Ventures

- Scottish Borders Health and Social Care Partnership

Management Commentary

How are we doing?

Our Priorities

Our Corporate Plan presents our commitment to improvement within the Scottish Borders as 4 themes over the five year period 2018 - 2023:



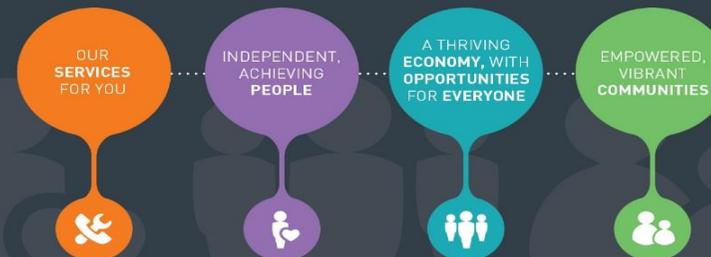
www.scotborders.gov.uk/performance

Performance against our corporate priorities

The Council reports and presents its performance information relating to each corporate priority on a monthly basis to the Corporate Management Team, and on a quarterly basis to the Executive Committee of the Council. Below is a summary of the key performance information for 2018/19 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.

OUR PLAN for 2018-2023 and your part in it

HIGHLIGHTS DURING 2018-19 APRIL 2018 to MARCH 2019



FIT FOR 2024 LAUNCHES

Scottish Borders Council has launched a large scale programme of transformation to ensure it is in the best shape to meet future challenges.

The 'Fit for 2024' programme is aimed at making the Council more adaptable, efficient and effective, and will see a series of projects and initiatives established to fundamentally redesign the Council's structure and business processes over the next five years.

You can read more about **FIT FOR 2024** on page 3.

2018 ANNUAL PARTICIPATION MEASURE

The latest Annual Participation Measure has revealed that 92.8% of 16-19 year olds in the Scottish Borders are participating in education, training or employment. This compares to a national figure of 91.8%.

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.



INSPIRE LEARNING PROGRAMME

In February 2019, Scottish Borders Council announced an investment of £16million over a ten year period in a world-class digital learning environment in Scottish Borders schools starting in 2019/20.

The 'Inspire Learning' programme will transform learning and teaching across the Borders for the benefit of all children and young people and teachers. It aims to:

- raise attainment
- support equity and inclusion
- prepare young people for a digital future

The programme is a key part of our Digital Learning Strategy and supports the requirements as set out in the Scottish Government's national strategy for education, which now places Digital Learning as a priority for schools and a core skill across learning.

The programme will be rolled out from 2019/20, and is expected to take around two years to fully implement.

SCOTTISH BORDERS 2018 | 4,685 | 16-19 YEAR OLDS

92.8% (SCOT 91.8%) participating in education, training or employment	2.2% (SCOT 3.4%) were not participating	5.0% (SCOT 4.7%) with an unconfirmed status
<ul style="list-style-type: none"> • 72.6% in Education • 18.5% in Employment • 1.7% in Training & Personal Development 	<ul style="list-style-type: none"> • 0.9% Unemployed Seeking • 1.3% Unemployed Not Seeking 	

SCOTTISH BORDERS 2017

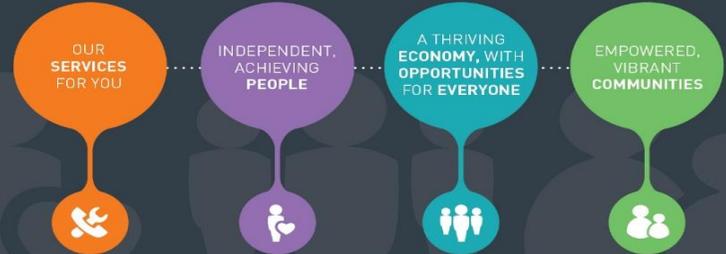
92.5% participating	3.0% not participating	4.5% unconfirmed
-------------------------------	----------------------------------	----------------------------

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019.



OUR PLAN for 2018-2023 and your part in it

HIGHLIGHTS DURING 2018-19 APRIL 2018 to MARCH 2019



THE BORDERLANDS INCLUSIVE GROWTH DEAL

The Borderlands Inclusive Growth Deal is currently being discussed with the UK and Scottish governments by the Borderlands Partnership. It comprises 5 projects & 6 programmes that have the potential to deliver benefits across the Borderlands area. The projects include establishing the feasibility of extending the Borders Railway from Carlisle to Tweedbank; and a Mountain Bike Innovation Centre in the Scottish Borders. The programmes are focused on Energy, Digital Connectivity, Place, Destination, Business Infrastructure and Learning & Skills.

The Borderlands Partnership is a unique collaboration that brings together the five cross-border local authorities -

Carlisle City Council, Cumbria County Council, Dumfries and Galloway Council, Northumberland County Council and Scottish Borders Council.

There has been a positive collective will from both Governments and the Partnership over the past two years in order to get to this stage of the process, with both Governments recently announcing a potential joint funding package of £345M for the Deal. The Borderlands Deal will complement the activities being delivered through the Edinburgh and South East Scotland City Region Deal and the South of Scotland Economic Partnership, and the upcoming establishment of South of Scotland Enterprise.

LOCALITIES BID FUND *your money your choice*



LOCALITIES BID FUND ROUND 2

Following 90 applications coming in for the second round of the Localities Bid Fund there are now 75 organisations going forward to the public vote in May/June 2019.



To be eligible to vote for a project you must live in the Borders and be aged 16 years and over. Residents will be able to vote online, at a voting event or by post.

Each voter will have a mandatory number of votes to cast - the number of mandatory votes determined by the number of projects in the area.

Further details available on www.scotborders.gov.uk/localitiesbidfund

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019.



CHANGE AND IMPROVEMENT

HIGHLIGHTS DURING 2018-19 APRIL 2018 to MARCH 2019
Programmes & projects that will impact on performance



FIT FOR 2024

Fit for 2024, the Council's new Transformation Programme was agreed by Council on 28th February this year. Characterised as 'the next generation' of transformation, the programme aims to fundamentally reshape the Council, from our engagement with our citizens and communities to the way we go about our business.

The purpose is to deliver a Council that is adaptable, efficient and effective, and capable of not only meeting the challenges ahead, but of fully optimising outcomes for the citizens and communities for which it is responsible.

The new programme builds on the Council's strong record over the last decade in delivering transformation to support service improvement and achieve significant financial savings.

However, Fit for 2024 recognises that the challenges ahead represent something (in terms of scale and nature) beyond anything the Council has been required to respond to before now.

FIT FOR 2024 is built around 7 inter-connected areas of focus:

- Service by service review and redesign
- Enhanced community engagement, participation and empowerment
- Best use of physical assets – including reducing the Council estate
- Investment in well planned and designed Digital Solutions
- Development of Workforce Skills, flexibility and working patterns
- Optimising partnership resources
- Process improvement and productivity

These arrangements are designed to deliver service improvements in a joined-up, permanent and sustainable way. Monitoring will continue to be provided to Executive through regular reporting.

Existing transformation projects and activities are incorporated within the new programme and a selection of highlights from the last year are reported in the following pages.



OLDER PEOPLE'S STRATEGY

In the Borders it is predicted that the population aged over 65 years will increase significantly, whilst at the same time the working-age population will reduce. The aim of the Older People's Strategy is to ensure that, support is in the right place at the right time for our growing, ageing population.

Together with investment in social infrastructure and delivering service reform, the strategy will:

- Enable investment in existing homes.
- Increase the housing options of newly built houses including in the private and social rented sectors and also in specialist residential settings.
- Invest in extra care housing and other types of housing with on-site support.
- Invest in technology enabled care.
- Improve the availability of information and advice, including advice and assistance on moving home.



DISCHARGE FROM HOSPITAL

One focus of the Health & Social Care Partnership is to facilitate timely discharge of patients from an acute hospital setting to home or to a 'homely' setting. To enable this a number of initiatives have been progressed. These include:

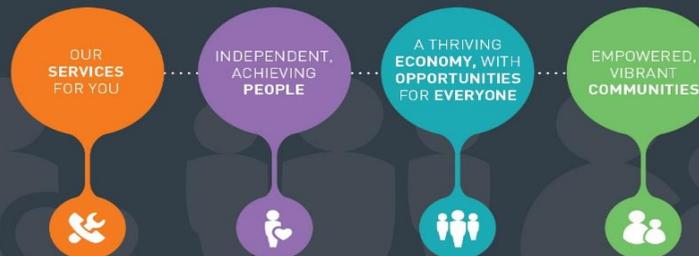
- Garden View (Tweedbank):** patients aged over 50, and who no longer require acute care, Garden View, where they receive up to two weeks of additional support to enable them return to their own homes.
- Transitional Care (Galashiels):** patients no longer requiring acute care can receive up to 6 weeks rehabilitation and reablement support to enable them to retain independence and return home.
- Hospital to Home:** is a district Nurse led model of care. It delivers reablement for patients in their own homes, following discharge from hospital.



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019.

CHANGE AND IMPROVEMENT

HIGHLIGHTS DURING 2018-19 APRIL 2018 to MARCH 2019
Programmes & projects that will impact on performance



COMMUNITY CAPACITY BUILDING

In 2018/19 the CCB team have undertaken a range of work across Scottish Borders with the aim of actively, fostering and encouraging 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. The focus is on developing activities identified by the local community and then working with them and partner organisations to turn ideas into reality. Some of the highlights of the last year are:

- A meals delivery/befriending service for older adults in Peebles
- Development of an information leaflet in Tweeddale for carers supporting individuals with Dementia
- An event in Duns to celebrate Silver Sunday which celebrates the value and knowledge older adults contribute to their local communities as well as helping to address loneliness and isolation amongst the older population
- Walking netball developed in Peebles & Eyemouth
- Tea dances in Duns & Hawick
- Success for Gala Walking Football team set up in 2015 who came second in the Scottish Walking Football league



In addition to the activities delivered in communities, over £100k in funding was secured for organisations either directly set up or supported by the team.

2018/19 also saw the introduction of Community Link Workers to the team. The aim of these roles is to support isolated older adults and also support ongoing transformation work. To date, people who were previously supported by the Ability Centre in Galashiels and Saltgreens Day Centre in Eyemouth have been supported to access alternative community resources. This process will continue over the coming financial year.

External evaluation of Community Capacity Building work so far suggests a social return on investment in the region of £10 for every £1 invested. This reflects the effectiveness of the staff team and the relatively high cost of older peoples' physical and mental ill health.

The external evaluation analysis also identified that the community development approach used by the team delivers better and more sustainable outcomes for individuals and communities.

ENTERPRISE & SKILLS SOUTH OF SCOTLAND ECONOMIC PARTNERSHIP

SOUTH OF SCOTLAND ENTERPRISE AGENCY

In order to prepare for the South of Scotland Enterprise Agency, the Scottish Government has set up the South of Scotland Economic Partnership (SoSEP) as an interim solution to ensure that the South of Scotland benefits from a new approach to economic development as soon as possible.

The South of Scotland Enterprise (SOSE) Bill was introduced in the Scottish Parliament on 24 October 2018 with the aim of ensuring that the new Agency is operational by 1 April 2020, subject to Parliamentary approval.

The Bill is being scrutinised by the Rural Economy and Connectivity Committee and during Stage 1 the Committee took evidence from the Council and a range of other stakeholders.

Stage 1 concluded with a debate which took place on 26 March 2019, when the Parliament unanimously agreed to the general principles of the South of Scotland Enterprise Bill.

The new Agency is expected to have a transformational impact on the delivery of economic development support in the South of Scotland and Scottish Borders, enabling new investments and new, more effective, partnerships with businesses, communities and the 3rd Sector.

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019.

CHANGE AND IMPROVEMENT

HIGHLIGHTS DURING 2018-19 APRIL 2018 to MARCH 2019

Programmes & projects that will impact on performance



COMMUNITY FUND

Council have agreed to consolidate the existing community grants and funding into a single Scottish Borders Council Community Fund for 2019/20. The total Community Fund available for 2019/20 is £1.166M and is to be devolved to the five Area Partnerships. The allocation of funding for Villages Halls, Local Festivals and grants to Community Councils for 2019/20 will be on the same basis and with the same criteria as in 2018/19.

This will leave each Area Partnership to distribute the remaining funds, with at least the following available budget:



In addition there will be a Borders-wide fund of £35,000 allowing community groups/organisations to apply for projects that benefit the whole of the Scottish Borders.

The Community Fund opened on April 1 for applications, with non-constituted groups able to apply up to £5k; constituted groups able to apply up to £10k and in exceptional cases up to £30k.

Application form and guidance notes available at www.scotborders.gov.uk/communitygrants



POOL CARS AVAILABLE FOR COMMUNITY USE

An E-Car Community Car Club was launched on 22nd April building on the roll-out of 55 pool cars across the Borders.

Initially, 16 vehicles will be available for hire by members of the community out with normal office hours Mon-Thursday and over the weekend. The scheme aims to maximise the value of the pool car fleet and offset costs by generating income. The 16 cars can be hired from as little as one hour, through to several days at a time on a Pay-As-You-Go basis. The cars are initially available in Hawick(4), Galashiels(4), Peebles(2), Duns(2), Newtown St. Boswells(2), Kelso(1) and Eyemouth(1) with scope to expand if demand justifies.

Members of the public can sign-up to become an E-Car Club member at www.ecarclub.co.uk/join and use the code WELCOMESB for free membership and 2 hours of free driving credit. The vehicles are available from £5.50 per hour and £45 per day. Mileage is unlimited and is charged at £0.15 per mile. The E-Car Club is a growing national scheme and members can access cars elsewhere in the UK and, in turn, vehicles will be available to E-Car Club members visiting the Borders.

Community Car Club usage and the associated income will be reported to Elected Members in future quarterly Executive Performance reports.

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019.

OUR SERVICES FOR YOU

OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019

PLANNING PERMISSION #
LOCAL – NON HOUSEHOLDER



8.1 weeks – average time to determine **Local Developments – Non Householder** during Q2 2018/19

Up from 7.8 in Q2 17/18

PLANNING PERMISSION #
LOCAL – HOUSEHOLDER



7.2 weeks – average time to determine **Local Developments – Householder** during Q2 2018/19

Up from 6.8 in Q2 17/18



WASTE RECYCLING #
HOUSEHOLD RECYCLING



38.17% of our household waste on average, was recycled over the last 12 months

Down from 39.88% in 2017

WASTE RECYCLING #
HOUSEHOLD 'OTHER' TREATMENT



0.33% of our household waste required 'other' treatment, on average over the last 12 months

Down from 0.35% in 2017

ENERGY USE (26 key sites)
ELECTRICITY



7,921,217 kilowatt hours or **Electricity used** at a cost of **£0.975m**

Down from 8,395,393 Kwh in 2017/18
Up from £0.920m in 2017/18

WASTE RECYCLING #
HOUSEHOLD LANDFILLED



61.50% of our household waste on average, was sent to Landfill over the last 12 months

Up from 59.76% in 2017

WASTE RECYCLING #
COMMUNITY RECYCLING CENTRES



57.95% of waste was recycled at SBC Community Recycling Centres, on average, over the last 12 months

Down from 58.54% in 2017

ENERGY USE (26 key sites)
GAS



11,744,734 kilowatt hours or **Gas used** at a cost of **£0.313m**

Down from 12,671,961 Kwh in 2017/18
Up from £0.300m in 2017/18



CONTEXT INDICATORS UPDATE OUR SERVICES FOR YOU

INDICATOR	2018/19	2017/18	CHANGE
Planning Applications	1,369	1,307	↑
Killed on Borders Roads#	11	7	↑
Seriously injured on Borders Roads#	65	54	↑
Capital Receipts Cumulative **	£1,444.2k	£380.3k	↑
Properties surplus	30 (03/19)	21 (03/18)	↑
Properties marketed	5 (03/19)	7 (03/18)	↓
Properties under offer	16 (03/19)	7 (03/18)	↑

KEY # 1 quarter lag ** Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019. # Performance indicators with a quarter lag in data.

OUR SERVICES FOR YOU

OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019

<p>WELFARE BENEFITS</p> <p>1,329 people contacted us for Welfare Benefits advice receiving over £4.537m in additional benefits</p> <p>No direct comparison in 17/18</p>	<p>HOUSING BENEFIT – NEW CLAIMS</p> <p>24.20 days – average time to process New Claims</p> <p>Down from 29.11 days in 17/18</p>	<p>HOUSING BENEFIT – CHANGE EVENTS</p> <p>6.51 days – average time to process Change Events</p> <p>Down from 7.06 days in 17/18</p>
<p>CUSTOMER CALLS</p> <p>94,086 phone interactions were logged by our Contact Centres</p> <p>Down from 100,491 in 17/18</p>	<p>COUNCIL TAX</p> <p>96.84% of Council Tax due was collected</p> <p>Up from 96.81% in 17/18</p>	<p>FREEDOM OF INFORMATION REQUESTS (FOI)</p> <p>85.8% of FOI requests were completed on time</p> <p>Down from 93.3% in 17/18</p>
<p>CUSTOMER COMPLAINTS STAGE ONE</p> <p>Our average response times for complaints was 4.69 days at stage one</p> <p>Up from 4.0 days in 17/18</p> <p>We closed 85.3% of complaints at stage one within 5 working days</p> <p>Down from 86.4% in 17/18</p>	<p>CUSTOMER COMPLAINTS STAGE TWO</p> <p>Our average response times for complaints was 18.4 days at stage two</p> <p>Up from 17.7 days in 17/18</p> <p>We closed 73.2% of complaints at stage two within 20 working days</p> <p>Up from 67.4% in 17/18</p>	<p>CUSTOMER COMPLAINTS ESCALATED COMPLAINTS</p> <p>Our average response times for escalated complaints was 14.67 days</p> <p>Down from 18.0 days in 17/18</p> <p>We closed 78.8% of escalated complaints within 20 working days</p> <p>Up from 53.8% in 17/18</p>

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
 Correct at time of publication: 28 May 2019. # Performance indicators with a quarter lag in data.



CONTEXT INDICATORS UPDATE OUR SERVICES FOR YOU

INDICATOR	2018/19	2017/18	CHANGE
Face to Face Interactions (CRM) by Customer Services	58,507	62,432	↓
Total logged customer contact with SBC	162,223	169,326	↓
Complaints Closed	699	691	↑
FOIs requests received	1,418	1,279	↑
Facebook Engagements	259,606	368,236	↓
Twitter Engagements	33,171	120,805	↓

KEY # 1 quarter lag **Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

INDEPENDENT, ACHIEVING PEOPLE OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019



<p>SCHOOL ATTENDANCE PRIMARY SCHOOLS </p> <p>95.3% of pupils attended their primary school (avg. of mthly attendance)</p> <p>Down from 95.4% in 17/18</p>	<p>SCHOOL EXCLUSIONS PRIMARY SCHOOLS </p> <p>29 exclusions from primary school</p> <p>Down from 49 in 17/18</p>	<p>LOOKED AFTER CHILDREN AGED 12+ </p> <p>70% of looked after children (aged 12+) in a community family based placement (end of Mar-19)</p> <p>Down from 71% at end of 17/18</p>
<p>SCHOOL ATTENDANCE SECONDARY SCHOOLS </p> <p>91.2% of pupils attended their secondary school (avg. of mthly attendance)</p> <p>Up from 91.1% in 17/18</p>	<p>SCHOOL EXCLUSIONS SECONDARY SCHOOLS </p> <p>236 exclusions from secondary school</p> <p>Up from 166 in 17/18</p>	<p>LOOKED AFTER CHILDREN ALL AGES </p> <p>84% of looked after children (all ages) in a community family based placement (end of Mar-19)</p> <p>In line with 84% at end of 17/18</p>
<p>SCHOOL ATTENDANCE OVERALL </p> <p>93.2% of pupils attended school overall (avg. of mthly attendance)</p> <p>Down from 93.3% in 17/18</p>	<p>SCHOOL EXCLUSIONS OVERALL </p> <p>265 exclusions from primary and secondary schools</p> <p>Up from 215 in 17/18</p>	<p>2018 PARTICIPATION MEASURE </p> <p>92.8% of 16-19 year olds participated in education, training or employment</p> <p>Up from 92.5% in 2017</p>

CONTEXT INDICATORS UPDATE INDEPENDENT, ACHIEVING PEOPLE

INDICATOR	2018/19	2017/18	CHANGE
Schools/Nurseries inspections	15	1	↑
Looked After Children	202 (03/19)	224 (03/18)	↓
Inter-agency Referral Discussions - child	590	559	↑
Child Protection Register	46 (03/19)	42 (03/18)	↑
New Modern Apprentices employed this year	33	n/a	n/a
Modern Apprentices securing employment with SBC after MA	11	n/a	n/a
Number of Current Modern Apprentices	34 (03/19)	30 (03/18)	↑

KEY # 1 quarter lag ** Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019. # Performance indicators with a quarter lag in data.



INDEPENDENT, ACHIEVING PEOPLE OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019

SOCIAL CARE CARE AT HOME



78% of adults (aged 65yrs+) received care at home compared to a care home/residential setting (end Mar-19)

In line with 78% at end of 17/18

MEDIATION SERVICE

93.3% of cases showing agreement or improvement after mediation (end Mar-19)

Up from 87.7% at end of 17/18



SOCIAL CARE SELF DIRECTED SUPPORT

85.2% of adults are using the Self Directed Support approach (end Mar-19)

Up from 77.6% in 17/18

BED DAYS ASSOCIATED WITH EMERGENCY ADMISSIONS



868 bed days associated with emergency admissions, aged 75+ (rate per 1000 population) (Q3 2018/19)

DELAYED DISCHARGES FROM HOSPITAL



227 bed days associated with delayed discharges in residents aged 75+ (rate per 1000 population) (Q3 2018/19)

SOCIAL CARE NEW SERVICE USERS

93% of new service users received a service within 6 weeks of assessment (end Mar-19)

In line with 93% at end of 17/18



CONTEXT INDICATORS UPDATE INDEPENDENT, ACHIEVING PEOPLE

INDICATOR	2018/19	2017/18	CHANGE
Adult self-directed care per 1,000 pop	17.78 (03/19)	19.15 (03/18)	↓
Adult protection - Concerns	338	277	↑
Adult protection - Investigations	176	131	↑
Reported incidents of domestic abuse **	1,005	1,080	↓
Referrals To Domestic Abuse Services **	762	756	↑
ASB Incidents **	15,515	15,362	↑
ASB Early Interventions *	899	806	↑
Monitored for ASB **	1,561	1,688	↓
Referrals to mediation **	123	153	↓
Group 1-5 recorded crimes and offences **	3,704	3,404	↑

KEY # 1 quarter lag ** Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019. # Performance indicators with a quarter lag in data.

A THRIVING ECONOMY, WITH OPPORTUNITIES FOR EVERYONE

OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019

BUSINESS GATEWAY NEW BUSINESSES



218 new businesses were created with our help

Down from 224 in 17/18

BUSINESS GATEWAY BUSINESSES SUPPORTED



1,497 businesses were supported

Up from 1,324 in 17/18

AFFORDABLE HOMES



191 additional homes were provided last year that were affordable to people in the Borders, based on our wages?

Up from 145 in 17/18

INVOICES PAID



84% of invoices, on average were paid within 30 days

Up from 78% in 17/18

OCCUPANCY RATES



88% of industrial and commercial properties owned by the council were occupied (end Mar-19)

Down from 88.8% at end of 17/18

TOP CAPITAL PROJECTS



Of the **top major projects** ongoing across the council (end Mar-19)

18 are on target

In line with 18 in 17/18

1 is slightly behind target

Down from 3 in 17/18

0 are not on target

In line with 0 in 17/18



CONTEXT INDICATORS UPDATE A THRIVING ECONOMY, WITH OPPORTUNITIES FOR EVERYONE

INDICATOR	2018/19	2017/18	CHANGE
16 - 64 Employment rate #	74.3% [Q3 18/19]	74.5% [Q3 17/18]	↓
16 - 64 Claimant Count	2.47% [Q4 18/19]	1.63% [Q4 17/18]	↑
18 - 24 Claimant Count	4.53% [Q4 18/19]	3.43% [Q4 17/18]	↑
SB Business Loan Fund - loans	1	8	↓
SB Business Loan Fund - loans £	£20.0k	£129.9k	↓
SB Business Fund - grants	19	33	↓
SB Business Fund - grants £	£57.1k	£100.9k	↓

KEY # 1 quarter lag ** Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 28 May 2019. # Performance indicators with a quarter lag in data.

EMPOWERED VIBRANT COMMUNITIES

OUR PERFORMANCE DURING 2018-19 APRIL 2018 to MARCH 2019

SCOTTISH BORDERS COUNCIL
COMMUNITY ACTION TEAM
(WITH POLICE SCOTLAND)

335
hours of High Visibility
foot patrols



588.5
hours of mobile patrols



884
parking tickets issued



217
person Drug searches
(35% positive) and



65
premises Drug searches
(80% positive)



101
static road checks



23
Road Traffic Fixed Penalties



ASSET TRANSFER REQUESTS

0 asset transfer requests were
Received

Down from 4 in 17/18

3 asset transfer requests were
Agreed

Up from 0 in 17/18

0 asset transfer requests were
Refused

Down from 1 in 17/18

COMMUNITY RESILIENCE SB ALERT REGISTRATIONS

5,266 people were
registered for SB Alert



Up from 5,163 in 17/18

COMMUNITY PARTICIPATION

6 participation requests were
Received

Up from 1 in 17/18

3 participation requests were
Agreed

Up from 0 in 17/18

2 participation requests were
Refused

Up from 1 in 17/18

COMMUNITY BENEFIT CLAUSES

26 contracts awarded with
community benefit clauses

Up from 21 in 17/18

EMPLOYMENT AND SKILLS OPPORTUNITIES

25 opportunities delivered as a
result of community benefit clauses

Down from 28 in 17/18

CONTEXT INDICATORS UPDATE EMPOWERED VIBRANT COMMUNITIES

INDICATOR	2018/19	2017/18	CHANGE
Active community resilience plans	47 (03/19)	42 (03/18)	↑
Progressing community resilience plans	6 (03/19)	12 (03/18)	↓
Community Grant – grants	38	35	↑
Community Grant – grants £	£140.9k	£104.8k	↑
Community Grant – total project cost £	£452.2k	£405.8k	↑
Quality of Life Fund – £ **	£102.4k	£110.5k	↓
Neighbourhood Small Schemes Fund – £ **	£176.7k	£151.8k	↑
Volunteer work with SBC	155 (Q4)	213 (Q4)	↓

KEY # 1 quarter lag ** Cumulative in year ↑ Increased ↓ Reduced

Context Indicators are indicators where Scottish Borders Council has indirect influence (e.g. crime figures) or can include the context within which the council is operating (e.g. employment rate)

Management Commentary

Our Plans for the Future

The Council has successfully delivered £47m of savings over the past 6 years through a Corporate Transformation Programme. In light of the challenges ahead this programme of change has been relaunched under the Fit for 2024 programme to deliver significant savings, ensure sustainability and deliver service improvements over the 5 years from 2019/20 to 2023/24. This plan along with the Capital Investment Programme and Departmental Business Plans which will be delivered over the next 5 years within an environment of ever reducing financial resources and increasing public and government expectations.

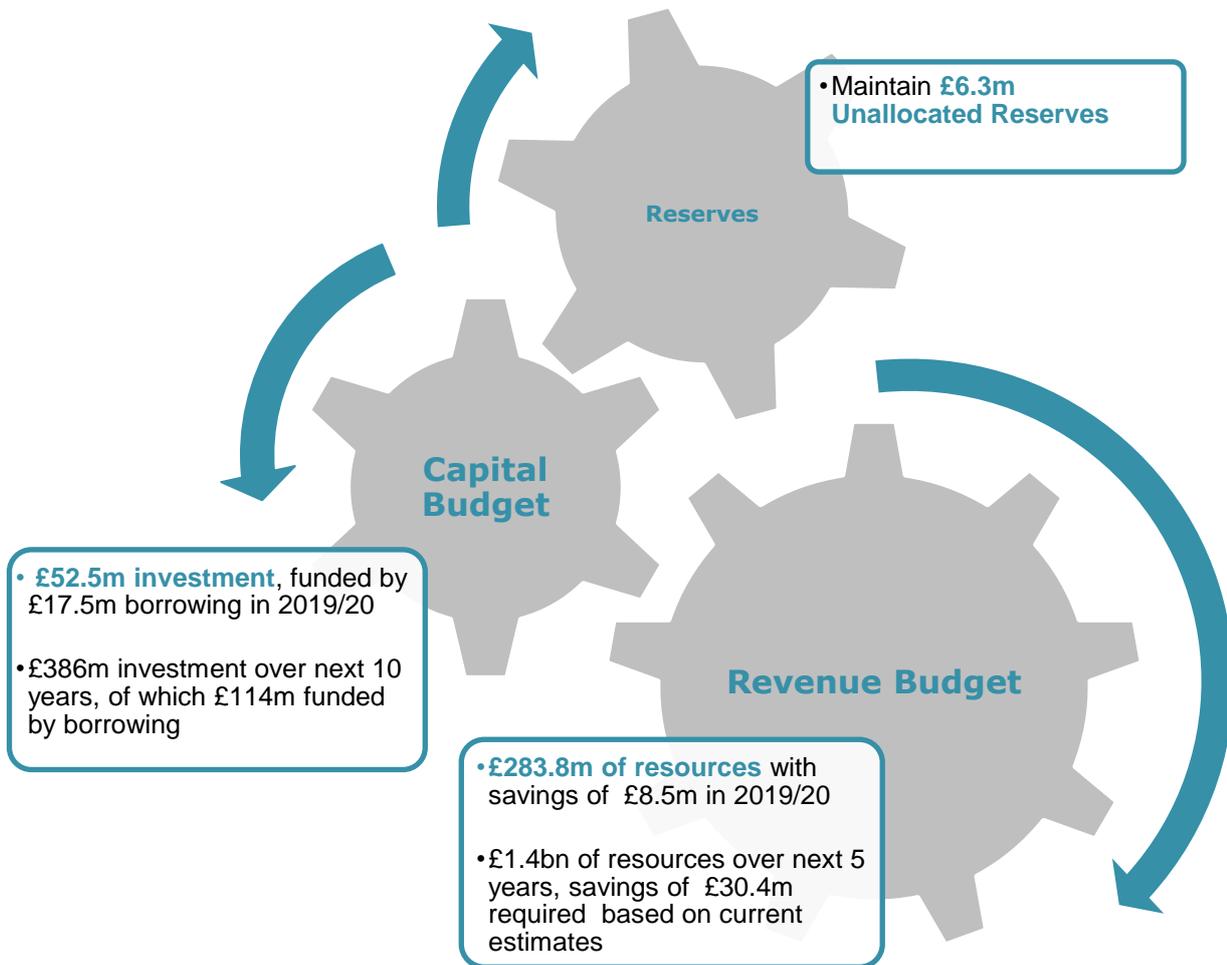


fitfor2024

For more information on the programme visit: www.scotborders.gov.uk/fitfor2024

Management Commentary

Future Financial Plans - 2019/20



The Revenue and Capital Financial Plans from 2019/20 onwards can be found on the Councils webpages at www.scotborders.gov.uk

Conclusion

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

Shona Haslam
Leader
Scottish Borders Council
26 September 2019

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 26 September 2019.

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 2019.

Shona Haslam
Leader
Scottish Borders Council
26 September 2019

David Robertson CPFA
Chief Financial Officer

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

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 2019 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the council-only Council Tax Income Account, 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 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 2018/19 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. 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. Non-audit services prohibited by the Ethical Standard were not provided to the council. 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

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Financial Officer and the Audit and 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 and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My 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 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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.

Independent Auditor`s Report

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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

27 September 2019

Annual Governance Statement 2018/19

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2019, 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 2017/18 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 28 June 2018 on recommendation by Audit and Scrutiny Committee on 14 May 2018 and a copy of the Local Code of Corporate Governance was published on the Council's website.

Annual Governance Statement 2018/19

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 2019. 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 2018/19

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 2018/19

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

The independent and objective audit opinion of the Chief Officer Audit & Risk (Chief Audit Executive) within the Internal Audit Annual Assurance Report 2018/19 states that the systems of internal control, risk management and governance arrangements are operating satisfactorily, reasonable assurance can be provided on their adequacy, and further improvements have been agreed by Management. This is based on work carried out by an in-house team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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 2018/19 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'.

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 Council's Local code of Corporate Governance:

- (1) In response to unprecedented challenges, expectations and opportunities, commence a more ambitious change and transformation programme (Fit for 2024) through a consistent approach to enable delivery of efficient and effective services to customers in a sustainable way, collaboration with communities and other partners, optimised utilisation of assets across localities, digitally-led process improvement, and focus on delivering positive outcomes.
- (2) 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.
- (3) Realise full benefits arising from the implementation of the Corporate Landlord Model to review strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future and reduce the Council's property footprint.
- (4) Continue to monitor the contract performance outcomes of strategic external service providers in particular in light of the changing landscape for the public sector.
- (5) The ongoing implementation of the Performance Management Framework which will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
- (6) The ongoing implementation of the Business World ERP system to maximise use of its functionality, specified in Solution Design Documents, and ongoing review of policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial

Annual Governance Statement 2018/19

Regulations and of the HR procedures and guidelines associated with the implementation of the new Business World ERP System. Alignment with other computer-based systems and automation of routine processes.

- (7) Consolidation and refinement of procedures and practices to ensure comprehensive data and information management across the Council and within each Service in all relevant aspects of service delivery to ensure ongoing compliance with legislation and regulations.
- (8) 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 to fully utilise customer information and improve services through Digital Customer Access.

These actions to enhance the governance arrangements in 2019/20 will be driven and monitored by the Corporate Management Team supported by Directorate Management Teams on a regular basis in order to inform the next annual review. Internal Audit work planned in 2019/20 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
26 September 2019

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 40
- Senior Officer Remuneration Page 42
- Pay Bandings Information Page 39
- Pension Benefits Information for Senior Councillors Page 45
- Pension Benefits Information for Senior Officers Page 46

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 2018/19 the salary for the Leader of Scottish Borders Council is £33,992. 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 £297,416. 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 £287,269. 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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£50,000 - £54,999	-	1	42	52	28	21	70	74
£55,000 - £59,999	2	-	25	23	1	9	28	32
£60,000 - £64,999	4	3	1	2	-	1	5	6
£65,000 - £69,999	2	1	3	2	-	1	5	4
£70,000 - £74,999	4	1	2	4	-	-	6	5
£75,000 - £79,999	1	4	1	2	2	1	4	7
£80,000 - £84,999	3	4	-	-	-	-	3	4
£85,000 - £89,999	3	2	-	-	-	-	3	2
£90,000 - £94,999	-	-	-	-	-	-	-	-
£95,000 - £99,999	-	-	-	-	-	1	-	1
£100,000 - £104,999	-	-	-	-	-	-	-	-
£105,000 - £109,999	-	-	-	-	-	-	-	-
£110,000 - £114,999	-	-	-	-	-	-	-	-
£115,000 - £119,999	-	-	-	-	-	-	-	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	-	1	-	-	-	-	-	1
£130,000 - £134,999	-	-	-	-	-	-	-	-
£135,000 - £139,999	1	-	-	-	-	-	1	-
Total	20	17	74	85	31	34	125	136

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2017/18 £	Councillor Name	Responsibility	Salaries, fees and allowances £	Taxable Expenses £	Total Remuneration 2018/19 £
29,488 (FYE 33,857) 25,295 (FYE 33,789) (FYE 25,392) 54,783	S Haslam	Leader of the Council from 18 May 2017	33,992	-	33,992
	D Parker	Leader of the Council to 4 May 2017; Convener from 18 May 2017	25,494	-	25,494
	Leader and Convener Remuneration		59,486	-	59,486
21,524 (FYE 22,893) (FYE 22,240) 18,223 (FYE 22,893) (FYE 18,450) 21,524 (FYE 22,893) (FYE 22,240)	A Aitchison	Executive Member for Education to 4 May 2017; Executive Member for Neighbourhoods & Locality Services from 18 May 2017	22,329	-	22,329
	S Bell	Executive Member for Economic Development to 4 May 2017; Chair of Audit & Scrutiny from 18 May 2017	18,524	-	18,524
	G Edgar	Executive Member for Roads and Infrastructure to 4 May 2017 and from 18 May 2017 (also Area Partnership Chair)	22,329	-	22,329
19,370 (FYE 22,240)	T Weatherston	Executive Member for Adult Social Care/Depute Convener from 18 May 2017	22,329	-	22,329
19,370 (FYE 22,240)	C Hamilton	Executive Member for Children & Young People from 18 May 2017	22,329	-	22,329
19,370 (FYE 22,240)	G Turnbull	Executive Member for Finance from 18 May 2017 to 30 August 2018; Executive Member for Community Safety from 31 August 2018	22,329	-	22,329
19,370 (FYE 22,240)	M Rowley	Executive Member for Business & Economic Development from 18 May 2017	22,329	258	22,587
19,370 (FYE 22,240)	S Mountford	Executive Member for Transformation & HR and Area Partnership Chair from 18 May 2017	22,329	144	22,473
19,370 (FYE 22,240)	E Jardine	Executive Member for Culture & Sport from 18 May 2017	22,329	-	22,329
19,370 (FYE 22,240)	T Miers	Executive Member for Planning & Environment from 18 May 2017	22,329	174	22,503
16,069 (FYE 18,450)	S Marshall	Area Partnership Chair from 18 May 2017 to 30 August 2018	7,669 (FYE 18,524)	-	7,669
16,069 (FYE 18,450)	J Fullarton	Area Partnership Chair from 18 May 2017	18,524	-	18,524
16,069 (FYE 18,450)	R Tatler	Area Partnership Chair from 18 May 2017; Executive Member for Finance from 31 August 2018 (also continuing as Area Partnership Chair)	20,754 (FYE 18,524) (FYE 22,329)	162	20,916
19,370 (FYE 22,240)	W McAteer	Executive Member for Community Safety from 18 May 2017 to 30 August 2018	9,244 (FYE 22,329)	-	9,244
0	N Richards	Area Partnership Chair from 31 August 2018	10,855 (FYE 18,524)	-	10,855
264,438	Total Other Senior Councillor Remuneration		286,531	738	287,269
319,220	Total Senior Councillor Remuneration		346,017	738	346,755

The total remuneration figures relate to the salary, fees and allowances for 2018-19 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.

Remuneration Report

Total Remuneration paid to Councillors

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

2017/18 £'000		2018/19 £'000
655	Salaries	668
93	Expenses	90
748	Total	758

The draft annual return of Councillors' salaries and expenses for 2018/19 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.

2017/18			2018/19				
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 01/04/18							
134,726	TM Logan	Chief Executive (1)	121,376	-	-	7,870	129,246
21,381	P Barr	Executive Director (2)	21,701	-	-	-	21,701
87,935	JR Dickson	Executive Director (3)	42,681	-	-	-	42,681
87,51	KD Robertson	Chief Financial Officer	88,540	-	-	-	88,540
83,852	J Craig	Service Director Customer & Communities	84,936	-	-	-	84,936
73,350	C Hepburn	Service Director Human Resources	76,859	-	-	-	76,859
83,595	GB Frater	Service Director Regulatory Services	84,936	-	-	-	84,936
74,411	D Girdler	Chief Officer Roads	76,859	-	-	-	76,859
31,069	MR Leys	Interim Chief Social Work Officer (4) (appointed 18 September 2017 until 25 September 2018)	29,157	-	-	-	29,157
(FYE 57,952)			(FYE 59,980)				
-	CS Easingwood	Chief Officer Public Protection (appointed 26 September 2018 to 7 October 2018); Interim Service Director Children & Young People (appointed 8 October 2018) (5)	44,251	-	-	-	44,251
			(FYE 74,975)				
			(FYE 83,104)				
84,894	M Joyce	Service Director Assets & Infrastructure	86,364	-	-	-	86,364
Senior Employees departed post before 01/04/19							
87,849	D Manson	Service Director Children & Young People (left 18 October 2018)	48,175	-	-	-	48,175
			(FYE 87,849)				
850,213		Total	805,835	-	-	7,870	813,705

Notes

- (1) TM Logan figure of £121,376 includes £3,341.64 returning Officer fees for the 25% balance of Returning Officer fee for the General Election on 8 June 2017, 25% balance of Returning Officer fee for Scottish Parliament Election on 8 June 2017 and Returning Officer fee for the Selkirk By-Election on 22 February 2018. The "benefits other than in cash" figure for TM Logan relates to car salary sacrifice. Participation in the scheme ended 10 October 2018.
- (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% (£86,805) met by SB Cares.
- (3) JR Dickson seconded to Scottish Government. The above figure represents 40% of time employed by SBC with the remaining 60% (£64,021) met by the Scottish Government. Secondment took effect from 1 December 2017 so, prior to this date, was employed 100% of time with SBC.
- (4) MR Leys employed 0.8 of a full time equivalent.
- (5) SC Easingwood duties include the role of Chief Social Work Officer from 26 September 2018.

The Council contributes £51,590 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 jointly by both organisations. More information on the Integrated Joint Board can be found in their audited annual accounts.

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2017/18 and 2018/19:

2018/19

Exit Package Cost band (including special payments) 2018/19	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	5	-	5	11,057
£20,001- £40,000	2	-	2	73,281
£40,001- £60,000	1	-	1	48,477
£60,001- £80,000	1	-	1	79,091
£80,001- £100,000	-	-	-	-
£100,001- £150,000	3	-	3	401,135
£150,001- £200,000	-	-	-	-
Total	12	-	12	613,042

The total costs of £0.613m 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.

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	0	5	153,699

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.

2017/18	Name	Post Title	2018/19					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 2018 £	For year to 31 March 2019 £	Type	As at 31 March 2019 £	Difference from 31 March 2018 £
75,000	Ewan Jackson	Chief Executive Officer	79,216	-	-	79,216	13,500	13,580	Pension	18,627	1,757
									Lump Sum	14,812	87

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 2018/19 were as follows:

Whole Time Pay	2018/19
On earnings up to and including £21,300 (2017/18 £20,700)	5.50%
On earnings above £21,300 and up to £26,100 (2017/18 £20,700 to £25,300)	7.25%
On earnings above £26,100 and up to £35,700 (2017/18 £25,300 to £34,700)	8.50%
On earnings above £35,700 and up to £47,600 (2017/18 £34,700 to £46,300)	9.50%
On earnings above £47,600 (2017/18 £46,300)	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 2019 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	Restated In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2018	For year to 31 March 2019	Type	As at 31 March 2019	Difference from 31 March 2018
		£	£		£	£
S Haslam	Leader of the Council from 18 May 2017	5,414	6,119	Pension	1,358	726
				Lump Sum	-	-
D Parker	Leader of the Council to 4 May 2017, Convener from 18 May 2017	4,660	4,589	Pension	7,067	566
				Lump Sum	2,613	8
D P Moffat	Executive Member for Community Safety to 4 May 2017	3,148	3,059	Pension	4,530	391
				Lump Sum	1,625	2
J Brown	Executive Member for Community Planning/Vice Convener to 4 May 2017	3,148	3,059	Pension	5,579	427
				Lump Sum	5,067	91
A Aitchison	Executive Member for Education to 4 May 2017, Executive Member for Neighbourhoods & Locality Services from 18 May 2017	3,981	4,019	Pension	4,723	565
				Lump Sum	1,615	37
S Bell	Executive Member for Economic Development to 4 May 2017, Chair of Audit & Scrutiny from 18 May 2017	3,387	3,334	Pension	2,900	410
				Lump Sum	-	-
G Edgar	Executive Member for Roads and Infrastructure to 4 May 2017 and from 18 May 2017 (also Locality Committee Chair)	3,981	4,019	Pension	3,101	515
				Lump Sum	-	-
D Paterson	Executive Member for Environmental Services to 4 May 2017	3,148	3,059	Pension	9,429	519
				Lump Sum	16,620	366
T Weatherston	Executive Member for Adult Social Care/Depute Convenor from 18 May 2017	3,879	4,019	Pension	8,758	692
				Lump Sum	15,343	382
C Hamilton	Executive Member for Children & Young People from 18 May 2017	3,593	4,019	Pension	896	477
				Lump Sum	-	-
G Turnbull	Executive Member for Finance from 18 May 2017	3,879	4,019	Pension	4,302	569
				Lump Sum	1,528	43
M Rowley	Executive Member for Business & Economic Development from 18 May 2017	3,593	4,019	Pension	896	477
				Lump Sum	-	-
S Mountford	Executive Member for Transformation & HR and Locality Chair from 18 May 2017	3,879	4,019	Pension	2,604	540
				Lump Sum	-	-
E Jardine	Executive Member for Culture & Sport from 18 May 2017	3,593	4,019	Pension	896	477
				Lump Sum	-	-
T Miers	Executive Member for Planning and Environment from 18 May 2017	3,593	4,019	Pension	896	477
				Lump Sum	-	-
S Marshall	Locality Committee Chair from 18 May 2017	3,285	3,173	Pension	3,859	432
				Lump Sum	1,300	21
J Fullarton	Locality Committee Chair from 18 May 2017	3,285	3,334	Pension	4,201	442
				Lump Sum	1,557	17
R Tatler	Locality Committee Chair from 18 May 2017	2,999	3,736	Pension	792	442
				Lump Sum	-	-
W McAtter	Police, Fire & Rescue and Safer Communities Board Chair from 18 May 2017	3,879	3,456	Pension	1,871	436
				Lump Sum	-	-
N Richards	Area Partnership Chair from 31 August 2018	2,760	3,220	Pension	704	382
				Lump Sum	-	-
Total		73,084	76,309			

Notes

- (1) 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 2019 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 2019.

Name	Post Title	In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2018	For year to 31 March 2019	Type	As at 31 March 2019	Difference from 31 March 2018
Senior Employees in post as at 01/04/18		£	£		£	£
TM Logan	Chief Executive	21,577	21,848	Pension Lump Sum	46,594 73,453	5,242 5,534
P Barr	Executive Director (1)	3,849	3,906	Pension Lump Sum	27,722 23,176	2,703 341
JR Dickson	Executive Director (2)	18,918	7,682	Pension Lump Sum	15,852 -	2,491 -
KD Robertson	Chief Financial Officer	15,649	15,937	Pension Lump Sum	34,622 54,971	2,473 994
J Craig	Service Director Customer & Communities	15,001	15,288	Pension Lump Sum	36,000 61,206	2,444 1,153
C Hepburn	Service Director HR and Communications	13,203	13,835	Pension Lump Sum	14,720 2,558	2,103 116
GB Frater	Service Director Regulatory Services	15,001	15,288	Pension Lump Sum	46,099 91,504	2,634 1,724
D Girdler	Chief Officer Roads	13,367	13,835	Pension Lump Sum	4,088 -	1,664 -
MR Leys	Interim Chief Social Work Officer (appointed 18 Septemebr 2017 until 25)	10,120	9,599	Pension Lump Sum	2,885 -	1,156 -
CS Easingwood	Chief Officer Public Protection (appointed 26 September 2018 to 7 October 2018); Interim Service Director Children & Young People (appointed 8 October 2018)	15,526	13,182	Pension Lump Sum	21,144 26,718	5,618 6,600
M Joyce	Service Director Assets & Infrastructure	15,269	15,557	Pension Lump Sum	8,334 -	1,949 -
Senior Employees departed post before 01/04/19						
D Manson	Service Director Children & Young People (left 18 October 2018)	15,813	7,906	Pension Lump Sum	6,784 -	1,141 -
				Pension	-	-
Total		173,293	153,863			

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 with the remaining 80% (£15,625) relating to the time spent at SB Cares.
- (2) JR Dickson seconded to Scottish Government. The above figure for in year contributions represents 40% of time employed by SBC.

Remuneration Report

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 23 staff members who are TU representatives.

The percentage of working time spent on TU activities by the 23 TU representatives can be broken down as follows:-

Percentage of Time	Number of TU Representatives
1% - 50%	20
51% - 99%	0
100%	3
Total	23

The percentage of the total pay bill spent on facility time is 0.093%.

100% of paid facility time hours is spent on trade union activities.

Shona Haslam
Leader
Scottish Borders Council
26 September 2019

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 105.

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)	-	(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)	

Movement in reserves during 2018/19

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 01/04/2018	(19,726)	(7,580)	(426)	(1,063)	(28,795)	(62,554)	(91,349)

Movement in reserves during 2018/19

Total Comprehensive Income & Expenditure	16,933	-	-	-	16,933	13,431	30,364	C I & E
Adjustments between accounting basis & Funding basis under regulations	(14,762)	(1,223)	(21)	(134)	(16,140)	16,140	-	31
Increase or Decrease In 2018/19	2,171	(1,223)	(21)	(134)	793	29,572	30,364	
Balance at 31/03/2019 carried forward	(17,555)	(8,803)	(447)	(1,197)	(28,002)	(32,982)	(60,984)	

Comprehensive Income and Expenditure Statement

2017/18				2018/19			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
457,222	(428,142)	29,081	(Surplus)/Deficit on Provision of Services	447,647	(430,714)	16,933	
		(53,605)	(Surplus)/Deficit on revaluation of Non Current Assets			(3,533)	
		1,431	Any Other (Gains) Or Losses			-	
		(70,492)	Actuarial (gains)/losses on pension assets/liabilities			16,964	
		(122,666)	Other Comprehensive Income and Expenditure			13,431	
		(93,585)	Total Comprehensive (Income)/Expenditure			30,364	

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'.

2017/18 £'000		2018/19 £'000	Notes
378,528	Property Plant and Equipment		
16,397	Other Land and Buildings	379,278	12
125,999	Vehicle, Plant, Furniture & Equipment	18,617	
4,742	Infrastructure	128,178	
9,807	Surplus Assets	3,561	
1,036	Assets Under Construction	21,488	
1,036	Heritage Assets	1,036	13
6	Intangible Assets	61	14
5,770	Long Term Debtors	6,315	29
542,285	Long Term Assets	558,534	
201	Intangible Assets - Current	14	14
677	Inventories	820	24
52,207	Short Term Debtors	48,463	30
(10,823)	less Bad Debt Provision	(11,244)	
10,825	Cash and Cash Equivalents	4,525	34
53,087	Current Assets	42,578	
(8,288)	Short Term Borrowing	(3,275)	29
(50,129)	Short Term Creditors	(47,425)	30
(512)	Provisions	(579)	25
(58,929)	Current Liabilities	(51,279)	
(194,433)	Long Term Borrowing	(195,846)	29
(70,323)	Other Long Term Liabilities	(67,322)	17
(696)	Due to Trust Funds and Common Good	(685)	
(3,767)	Provisions	(3,885)	25
(14,804)	Capital Grants Receipts in Advance	(23,509)	
(284,023)	Long Term Liabilities	(291,247)	
252,420	Net Assets excluding pension liability	258,586	
(161,071)	Pension Liability	(197,602)	20
91,349	Net Assets/(Liabilities) including pension liability	60,984	

Balance Sheet

2017/18 £'000	Financed By:	2018/19 £'000	Notes
	Useable Reserves		
(7,580)	Capital Fund	(8,803)	} 31
(19,726)	General Fund Balance	(17,555)	
(426)	Property Maintenance Fund	(447)	
(1,063)	Insurance Fund	(1,197)	
	Unusable Reserves		
(111,848)	Capital Adjustment Account	(122,348)	} 31
4,773	Financial Instruments Adjustment Account	6,760	
(122,328)	Revaluation Reserve	(120,329)	
161,071	Pension Reserve	197,602	
5,778	Employee Statutory Adjustment Account	5,333	
(91,349)	Total Reserves	(60,984)	

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

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.

2017/18 £'000		2018/19		Notes
		£'000	£'000	
29,081	Net (Surplus) or deficit on the provision of services	16,933		
(73,120)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(51,931)		32
22,198	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	23,802		32
(21,841)	Net Cash Flows From Operating Activities		(11,196)	
	Investing Activities			
46,963	Purchase of PP&E, investment property and intangible assets	49,459		
(434)	Proceeds from PP&E, investment property and intangible assets	(1,606)		
-	Purchase/(Disposal) of short & long term investments	-		
(25,152)	Other Items which are Investing Activities	(35,056)		
21,377	Net Cash Flows from Investing Activities		12,797	
	Financing Activities			
(10,300)	Cash received from loans & other borrowing	(10,000)		
3,655	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,999		
4,063	Repayments of short and long term borrowing	10,839		
125	Other items which are financing activities	860		
(2,457)	Net Cash Flows from Financing Activities		4,698	
(2,921)	Net (Increase) or Decrease in Cash and Cash Equivalents		6,300	
7,904	Cash and Cash Equivalents at the beginning of the reporting period		10,825	
10,825	Cash and Cash Equivalents at the end of the reporting period		4,525	34
(2,921)	Movement		6,300	

Notes to the Core Financial Statements

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19 and the Service Reporting Code of Practice 2018/19, 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
- 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

Notes to the Core Financial Statements

- 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

The following policies are the Council's interpretation of the new IFRS 9 requirements according to the financial instruments that the Council hold.

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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amounts at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. [In Scotland the statutory guidance may restrict an authority's ability to adopt this approach.] The reconciliation of amounts charged to the CIES to the net charge 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.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) [separate accounting policy is required where an authority holds financial instruments at fair value through other comprehensive income].

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument)

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority 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 CIES (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 CIES 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 CIES 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.

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

Notes to the Core Financial Statements

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] 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.

Notes to the Core Financial Statements

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

Government Grants

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

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

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

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

Heritage Assets

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

- **Museum Collection**
The collection of various artefacts is reported on the Balance Sheet using the best available valuations; the Museum Service is working towards compliance with the Code. Where possible external valuations will be used to supplement the professional valuations carried out by Museums Service Officers. The artefacts are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Fine Arts Collection**
The fine art picture collection is reported on the Balance Sheet on the basis of the professional opinion of value by the officers of the Museum Service using where possible the latest information on comparable pictures from sale rooms. As with the Museum Collection the Service is working towards more external valuation of the collection. The pictures are deemed to have indeterminable lives and accordingly depreciation is not charged.
- **Archive Centre Collection**
Due to the unique nature and volume of the papers held in the Archive Centre no valuation of the collection has been undertaken and it is felt that such a task would not represent value for money. The papers are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Monuments, Memorials and Statues Collection**
The Property and Facilities Service look after all of the War Memorials, various monuments and statues and these are valued on the basis of Community Assets so are reported on the Balance Sheet at no value. It is felt that any other basis of valuation would not represent value for money. Depreciation would be inappropriate to charge in conjunction with the valuation basis used.

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

Notes to the Core Financial Statements

Intangible Assets

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

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

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

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

Inventories

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

Investment Property

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

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

Leases

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

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

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

Notes to the Core Financial Statements

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Private Finance Initiative (PFI)

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

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

Notes to the Core Financial Statements

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Property, Plant and Equipment

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

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

The Council has a de minimis limit of £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, vehicles, plant, furniture & equipment 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.

Notes to the Core Financial Statements

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

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

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

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

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

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

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

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.

Notes to the Core Financial Statements

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

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

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

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

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

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

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

Reserves

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

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

Notes to the Core Financial Statements

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

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been adopted during 2018/19.

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.

Annual Improvements to IFRS Standards 2014-2016 Cycle

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

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 2019 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 £0.268m 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 £0.027m 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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £78.723m. However, the assumptions interact in complex ways. During 2018/19, the authority's actuaries advised that the net pension liability had increased by £30.640m as a result of estimates being corrected and updating assumptions.

Arrears

At 31 March 2019, the authority had Accounts Receivable debtors due of £7.903m, Council Tax debtors of £20.611m and Non Domestic Rate debtors of £4.033m. Provision for bad debts amounted to £1.00m, £10.241m and £3.692m 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 £0.100m for Accounts Receivable debtors, £1.024m for Council Tax debtors and £0.369m 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.

		2017/18 Restated				2018/19	
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	
6,146	4,043	10,189	Culture & Sport	5,949	2,061	8,010	
28,959	14,219	43,178	Asset & Infrastructure	30,844	18,515	49,359	
651	611	1,262	Economic Development & Corporate Services	620	2,171	2,791	
49,409	1,553	50,962	Health & Social Care	51,018	1,308	52,326	
111,065	18,242	129,307	Children & Young People	111,442	(2,449)	108,993	
14,138	1,750	15,888	Customer & Communities	11,535	1,672	13,207	
31,698	(15,678)	16,020	Finance, IT & Procurement	33,115	(15,197)	17,918	
5,450	237	5,687	Human Resources	6,279	308	6,587	
6,691	6,642	13,333	Regulatory Services	6,713	6,792	13,505	
-	4,118	4,118	Non Distributed Costs	-	7,005	7,005	
254,207	35,737	289,944	Net Cost of services	257,515	22,186	279,701	
(255,639)	(5,225)	(260,864)	Other Income and Expenditure	(255,344)	(7,424)	(262,768)	
(1,432)	30,512	29,080	Surplus or Deficit on Provision of Services	2,171	14,762	16,933	
(18,294)			Opening General Fund Balance	(19,726)			
(1,432)			Less/Plus Surplus or (Deficit) on General Fund	2,171			
(19,726)			Closing General Fund as 31 March	(17,555)			

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 2018/19

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 Statutory Adjustments £'000	Other (Non-Statutory) Adjustments (Note 4) £'000	Total Adjustments £'000
Culture & Sport	2,075	-	(7)	2,068	(7)	2,061
Asset & Infrastructure	12,974	2,814	(74)	15,714	2,801	18,515
Economic Development & Corporate Services	2,000	188	(13)	2,175	(4)	2,171
Health & Social Care	406	1,063	(68)	1,401	(93)	1,308
Children & Young People	3,476	2,082	(68)	5,490	(7,940)	(2,450)
Customer & Communities	223	1,553	(75)	1,701	(29)	1,672
Finance, IT & Procurement	(15,394)	360	(160)	(15,194)	(2)	(15,196)
Human Resources	-	328	(17)	311	(3)	308
Regulatory Services	749	890	(124)	1,515	5,277	6,792
Non Distributed Costs	1,017	5,988	-	7,005	-	7,005
	7,526	15,266	(606)	22,186	-	22,186
Other income and expenditure from the Expenditure and Funding Analysis	(13,578)	4,301	1,853	(7,424)	-	(7,424)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(6,052)	19,567	1,247	14,762	-	14,762

Adjustments between Funding and Accounting Basis 2017/18 - 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 Statutory Adjustments £'000	Other (Non-Statutory) Adjustments (Note 4) £'000	Total Adjustments £'000
Culture & Sport	4,055	-	(1)	4,054	(11)	4,043
Asset & Infrastructure	10,760	2,825	(625)	12,960	1,259	14,219
Economic Development & Corporate Services	488	203	(75)	616	(5)	611
Health & Social Care	550	1,101	(55)	1,596	(43)	1,553
Children & Young People	22,621	2,223	(89)	24,755	(6,513)	18,242
Customer & Communities	303	1,522	(65)	1,760	(10)	1,750
Finance, IT & Procurement	(16,064)	391	(4)	(15,677)	(1)	(15,678)
Human Resources	-	320	(84)	236	1	237
Regulatory Services	510	964	(154)	1,320	5,322	6,642
Non Distributed Costs	4,059	59	-	4,118	-	4,118
	27,282	9,608	(1,152)	35,738	-	35,738
Other income and expenditure from the Expenditure and Funding Analysis	(11,448)	5,929	294	(5,225)	-	(5,225)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	15,834	15,537	(858)	30,513	-	30,513

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 Statutory Adjustments

Other statutory adjustments 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 statutory adjustments column recognises adjustment to the General Fund for the timing differences for premiums and discounts.

(Note 4) Other Non-Statutory Adjustments

Other non-statutory adjustments represent amounts debited/credited to service segments which need to be adjusted against the 'Other income and expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement:

- **For financing and investment income and expenditure** the other non-statutory adjustments column recognises adjustments to service segments, eg for interest income and expenditure and changes in the fair values of investment properties.
- **For taxation and non-specific grant income and expenditure** the other non-statutory adjustments column recognises adjustments to service segments, eg for un-ring-fenced government grants.

The Authority's reportable segments are based on the management reporting structure.

Notes to the Core Financial Statements

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

Expenditure/Income	2017/18 £'000	2018/19 £'000
Expenditure		
Employee Benefits Expenses	148,573	152,434
Other Service Expenses	223,549	227,257
Support Services Recharges	402	471
Depreciation, Amortisation, Impairment	49,731	31,259
Interest Payments	11,681	14,366
Loss on Disposal of Assets	-	698
Total Expenditure	433,936	426,485
Income		
Fees, Charges and Other Service Income	(126,292)	(127,545)
Gain on Disposal of Assets	(143)	-
Interest and Investment Income	(5)	(9)
Income from Council Tax and Non Domestic Rates	(85,385)	(87,774)
Government Grants and Contributions	(193,030)	(194,224)
Total Income	(404,855)	(409,552)
(Surplus) or Deficit on the Provision of Services	29,081	16,933

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2018/19 financial year.

Note 7 Prior Year Adjustments

There has been no prior period adjustments made during 2018/19.

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:

2017/18 Restated £'000		2018/19 £'000	3 Year Cumulative £'000
(7,936)	External Turnover for the Year	(4,500)	(23,436)
91	(Surplus) / Deficit	(126)	(126)

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 18 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 2018/19 SBc Contracts recorded an annual operating surplus of £0.781m against a revised budget target of a £0.699m surplus. After technical adjustments for pension (IAS 19) and Employee benefits accrual the net final position was £0.518m surplus.

In 2018/19 turnover increased by £1m, or 6.7% to £16m. Of the total £4.5 million, 28% was generated by external work. The order book remains strong with major works programmed to start or continue on Langlee Waste Transfer Project, Dirtpot Corner, Cardrona and Advance Works For Hawick Flood Scheme all for SBC as well as Sergeants Park, Newtown St Boswells for Hart Builders. Road Surface Dressing Framework Agreements for both South Lanarkshire and East Lothian Councils continue 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 £7.2 million during 2018/19.

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 2018/19 SBc Contracts recorded a cumulative external total surplus of £0.834 million.

Note 9 Agency Work

The Council acts as an intermediary for Scottish Water, collecting money on their behalf. In 2018/19 Scottish Borders Council received £0.343m 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 2019.

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 2018/19 was £0 (2017/18: £0.2m). The Remuneration Report shows the total allowances paid to senior members in 2018/19. 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 £0.256m.

Notes to the Core Financial Statements

During 2018/19, the Scottish Borders Council Pension Fund had an average balance of £0.62m (2017/18: £1.98m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2017/18: £0.004m). In addition the Council charged the Pension Fund £0.263m 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:

	2017/18	2018/19
Due to/ (from) the Scottish Borders Council Pension Fund	£ 1.037m	(£0.343m)

The Council provided routine material financial assistance to other bodies in 2018/19 as follows:

- Jedburgh Leisure Facilities Trust £0.115m
- VisitScotland £0.119m

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 2018/19 to support services is:

Older people	£7.477m
Adults with Learning Difficulties	£1.709m
People with Mental Health Needs	£0.380m
People with Physical Difficulties	£0.330m
Other Support Services	£0.230m

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 £0.874m in 2018/19 with a contribution from the NHS Borders of £0.376m. The contribution from NHS Borders included an additional £0.125m to support equipment spend.

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 2018/19 and received full capital repayment of the outstanding £0.428m. It is envisaged that with all amounts now repaid, the LLP will be wound up within 2019/20.

The Council made further advances of £1.1011m to Bridge Homes LLP during 2018/19 in addition to a capital grant of £0.135m. The Council received interest on the advance from Bridge Homes LLP during the year. The Council's net advances to 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 2018/19 the Council made a payment of £17.635m (including management fee of £16.982m) 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 2018/19 the Council made a payment of £51.943m to the Board with corresponding income of the same value shown within the Comprehensive Income & Expenditure Statement. At 31st March 2019 a debtor and creditor figure of £11.241m 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 £5.80m (including management fee of £5.475m) was made to the trust in 2018/19.

Lowood Tweedbank Limited was established on 30 November 2018 to act as mid-landlord of the residential properties at Lowood Estate in order to ensure the continuation of the tenancy arrangements. Lowood Tweedbank Limited collected rental income amounting to £14k, which was subsequently paid over to Scottish Borders Council.

Common Good and Trusts

Interest payable to Common Good and Trust Funds in relation to investments in SBC Loans Fund was £3k for 2018/19.

Note 11 Audit Remuneration

In 2018/19 the agreed audit fee for the year was £0.275m in respect of services provided by Audit Scotland (2017/18 £0.270m). Within this fee £6k is in respect of services provided by Audit Scotland in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts. (£6k in 2017/18)

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2018/19

	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 2018	400,199	54,849	224,207	9,807	4,857	1,036	694,955
Acquisitions & Recognition in the year	15,737	7,811	11,116	13,108	9	-	47,781
Revaluation Increase/(Decrease) To Revaluation Reserve	2,040	-	-	-	763	-	2,803
Revaluation Increase/(Decrease) To CIES	(2,780)	-	-	-	(622)	-	(3,402)
Transfers	347	1,932	1,895	(1,391)	(15)	-	2,768
Disposals	(1,031)	(2,486)	-	-	(1,391)	-	(4,908)
Gross book value (GBV) at 31 March 2019	414,512	62,106	237,218	21,524	3,601	1,036	739,997
Cumulative depreciation at 31 March 2018	(21,671)	(38,452)	(98,208)	-	(115)	-	(158,446)
Depreciation for the year	(12,081)	(5,730)	(9,273)	-	(57)	-	(27,141)
Revaluation Written Out To Revaluation Reserve	1,383	-	-	-	34	-	1,417
Revaluation Written Out To CIES	551	-	-	-	42	-	593
Impairment Losses Recognised In Revaluation Reserve	(503)	-	(184)	-	-	-	(687)
Impairment Losses Recognised In CIES	(2,287)	(504)	(584)	(36)	-	-	(3,411)
Transfers	(703)	(1,289)	(791)	-	15	-	(2,768)
Disposals	77	2,486	-	-	41	-	2,604
Cumulative depreciation at 31 March 2019	(35,234)	(43,489)	(109,040)	(36)	(40)	0	(187,839)
Net book value at 31 March 2019	379,278	18,617	128,178	21,488	3,561	1,036	552,158
Net book value at 31 March 2018	378,528	16,397	125,999	9,807	4,742	1,036	536,509

* VPFE – Vehicles, Plant, Furniture and Equipment

Notes to the Core Financial Statements

Comparative Movements in 2017/18

	Property Plant & Equipment - Restated					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
Revaluation Increase/(Decrease) To Revaluation Reserve	28,042	-	-	-	(303)	-	27,739
Revaluation Increase/(Decrease) To CIES	(23,938)	-	-	-	(4,580)	-	(28,518)
Transfers	49,749	16	-	(55,898)	6,133	-	0
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)
Revaluation Written Out To Revaluation Reserve	27,419	-	-	-	50	-	27,469
Revaluation Written Out To CIES	4,942	-	-	-	655	-	5,597
Impairment Losses Recognised In Revaluation Reserve	(1,602)	-	-	-	-	-	(1,602)
Impairment Losses Recognised In CIES	(2,325)	(286)	(193)	-	-	-	(2,804)
Transfers	667	-	-	-	(667)	-	-
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	304,083	17,004	123,827	26,564	3,760	1,036	476,274

Notes to the Core Financial Statements

The Council had no investment properties in 2018/19.

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.

Capital Commitments

As at 31 March 2019 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 £9.648m. These commitments can be categorised as follows:-

	Capital Commitments as at 31 March 2019 £'000
Culture & Sport	372
Asset & Infrastructure	5,684
Economic Development & Corporate Services	389
Children & Young People	238
Finance, IT & Procurement	5,014
Total	11,697

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 2018/19 the fixed assets relating to Planning & Economic Development 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 between three and five 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 2018 – Planning, Economic Development, and Surplus Properties
- 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

Common Good & Trust Fund Properties will be revalued as at 1 April 2019 with the resulting adjustments incorporated into the 2019/20 accounts of the Council.

	Property Plant & Equipment					Heritage Assets £'000	Total Assets £'000
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000		
	Carried at Historical Cost	120,526	61,833	237,120	21,524		
New Certified Valuation							
1st April 2018	1,194	-	-	-	218	-	1,412
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 2019	414,512	62,106	237,218	21,524	3,601	1,036	739,997

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 2017	161	771	104	1,036	1,036
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2018	161	771	104	1,036	1,036
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2019	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 three to five years.

2017/18 £'000		2018/19 £'000
1,730	Gross book value (GBV) at 31 M arch	1,732
-	Prior Period adjustment	52
1,730	Revised Gross book value (GBV) at 31 M arch	1,784
2	Expenditure in the year	56
-	Disposals	(438)
1,732	Gross book value (GBV) at 31 M arch	1,402
(1,678)	Cumulative amortisation at 31 M arch	(1,726)
22	Prior Period adjustment	(52)
(1,656)	Revised Cumulative amortisation at 31 M arch	(1,778)
(70)	Amortisation for the year	(1)
-	Disposals	438
(1,726)	Cumulative amortisation at 31 M arch	(1,341)
6	Net book value at 31 M arch	61

There were no revaluations of intangible assets in 2017/18 or 2018/19.

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 2017/18 or 2018/19.

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 also 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 2019 are as follows:

Notes to the Core Financial Statements

	Payments for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2019/20	5,168	3,027	2,804	10,999
Payable within two to five years	22,880	11,836	11,162	45,878
Payable within six to ten years	35,590	14,789	12,847	63,226
Payable within eleven to fifteen years	42,774	17,802	9,983	70,559
Payable within sixteen to twenty years	48,569	19,884	5,667	74,120
Payable within twenty one to twenty five years	2,730	3,011	2,492	8,233
Total	157,711	70,349	44,955	273,015

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:

2017/18 £'000		2018/19 £'000
	Net Asset Value	
84,316	Land and buildings	82,203
84,316		82,203

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 £0.008m in relation to industrial units), relate 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 2017/18 £'000		Land & Buildings 2018/19 £'000
	Finance Lease Liabilities	
3,060	Not later than 1 year	3,027
11,863	Later than 1 year and not later than 5 years	11,836
58,460	Later than 5 years	55,486
	Finance Costs Payable in Future Years	
2,766	Not later than 1 year	2,804
11,192	Later than 1 year and not later than 5 years	11,162
33,704	Later than 5 years	30,989
121,045	Minimum Lease Payments	115,304

The contingent rental figure, recognised as an expense in 2018/19 in respect of the Council's PPP arrangements, was £1.454m (2017/18 £1.162m).

Notes to the Core Financial Statements

Operating Leases

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

2017/18 £'000		2018/19 £'000	
90	Not later than 1year	291	
17	Later than 1year and not later than 5 years	1,233	
-	Later than 5 Years	1,722	
107	Total	3,246	

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:

2017/18 £'000		2018/19 £'000	
1,442	Not later than one year	1,727	
1,059	Later than one year and not later than five years	1,428	
5,998	Later than five years	5,640	
8,499	Total	8,795	

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.

2017/18 Restated £'000		2018/19 £'000	
286,604	Opening capital financing requirement		307,567
Capital Investment			
428	Consent to Borrow	1,146	
217	Subordinated Debt	-	
58,587	Property, plant and equipment	47,823	
2	Intangible assets	56	49,025
Sources of Finance			
(386)	Capital Receipts	(1,165)	
(23,902)	Government grants and other contributions	(28,118)	
(3,405)	NHT Repayment of Principal	(563)	
(10,578)	Loans fund repayments	(11,394)	(41,240)
307,567	Closing Capital Financing Requirement		315,352

2017/18 Restated £'000		2018/19 £'000	
Explanation of Movements in Year			
22,725	Increase in underlying need to borrow (supported by government financial assistance)		-
(1,762)	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)		7,785
20,963	Increase/(Decrease) in capital financing requirement		7,785

Note 19 Termination Benefits

During 2018/19 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 12 employees, incurring expenditure of £0.613m - 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 2018, as amended. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

Notes to the Core Financial Statements

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.

2017/18 £'000	Comprehensive Income and Expenditure Statement	2018/19 £'000
	<i>Cost of Services</i>	
20,997	Current Service Costs	21,019
59	Past Service Costs, including curtailments	5,988
	<i>Financing and Investment Income and Expenditure</i>	
5,929	Net Interest Expense	4,301
26,985	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	31,308
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(13,494)	Return on plan assets (excluding the amount included in the net interest expense)	(34,341)
(57,790)	Actuarial (gains) and losses arising on changes in financial assumptions	50,289
792	Other	1,016
(70,492)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	16,964
	<i>Movement in Reserves Statement</i>	
15,538	Reversal of net charges made for retirement benefits in accordance with the Code	19,567
	Actual amount charged against the General Fund Balance for pensions in the year	
9,950	Employers' contributions payable to the scheme	10,314
1,497	Retirement benefits payable to pensioners	1,427

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:-

2017/18 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2018/19 £'000
755,271	Present value of the defined benefit obligation	833,535
(594,200)	Fair value of plan assets	(635,933)
161,071	Sub total	197,602
161,071	Net liability arising from defined benefit obligation	197,602

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

2017/18 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2018/19 £'000
570,319	Opening Fair Value of Scheme Assets	594,200
15,309	Interest Income	15,055
	Remeasurement (gains) and losses:-	
13,494	Return on plan assets, excluding the amount included in the net interest expense	34,341
1,771	Other	-
11,447	Employer Contributions including unfunded pensions	11,741
3,359	Contributions by Scheme Participants	3,290
(21,499)	Estimated Benefits Paid	(22,694)
594,200	Closing Fair Value of Scheme Assets	635,933

Notes to the Core Financial Statements

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

2017/18 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2018/19 £'000
786,344	Opening Defined Benefit Obligation	755,271
20,997	Current Service Cost	21,019
20,988	Interest Cost	19,356
3,359	Contributions by Scheme Participants	3,290
	Remeasurement (gains) and losses:-	
(57,790)	Actuarial (gains)/losses arising from changes in financial assumptions	50,289
2,813	Other	1,016
59	Past Service Cost	5,988
(20,002)	Benefits Paid	(21,267)
(1,497)	Unfunded Pension Payments	(1,427)
755,271	Closing Defined Benefit Obligation	833,535

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 2019.

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.

2017/18 £'000	Local Government Pension Scheme assets comprised:	2018/19 £'000
666	Cash and cash equivalents	14,414
	Equity Instruments	
	<i>By industry type</i>	
47,799	Consumer	31,163
42,116	Manufacturing	34,301
5,568	Energy and utilities	5,628
56,063	Financial Institutions	43,527
17,804	Health and Care	12,429
38,838	Information Technology	27,708
-	Other	1,452
208,188		156,208
	Bonds	
	<i>By sector</i>	
64,095	UK Corporate	-
26,278	UK Government	-
90,373	Other	-
	Investment Funds - Quoted in Active Market	
56,054	Managed Fund - UK Equities Passive	139,094
78,432	Managed Fund - Global Equities	-
2,730	Managed Fund - Smaller Companies	-
83,833	Managed Fund - Property	92,386
-	Managed Fund - Bonds	100,508
221,049		331,988
	Investment Funds - Not Quoted	
73,924		133,323
594,200	Total Assets	635,933

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

2017/18 £'000	Fair Value of Scheme Assets	2018/19 £'000
	Equity instruments:	
	<i>By company size</i>	
208,188	Large capitalisation	156,208

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 Hymans Robertson LLP, 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:

2017/18	Basis for Estimating Assets and Liabilities	2018/19
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
21.60	Men	21.60
24.20	Women	24.20
	- longevity at 65 for future pensioners (years)	
23.30	Men	23.30
26.00	Women	26.00
3.3%	Rate of inflation - RPI	3.4%
2.3%	Rate of inflation - CPI	2.4%
3.3%	Rate of increase in salaries	3.5%
2.3%	Rate of increase in pensions	2.5%
2.6%	Rate for discounting scheme liabilities	2.4%

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

2017/18		Category Analysis of the Scheme Assets as at 31 March 2019	2018/19	
%	£'000		%	£'000
58	345,404	Equities	46	295,302
15	90,373	Gilts	-	-
-	-	Other Bonds	16	100,508
14	83,833	Property	15	92,386
-	666	Cash	2	14,414
7	43,036	Multi-Asset Fund	19	121,619
5	27,583	Private Credit	-	-
1	3,305	Infrastructure	2	11,704
100	594,200	Total	100	635,933

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	Approximate % increase to Employers Liability £'000
Adjustment to real discount rate - 0.5% decrease	9%
Adjustment to long term salary increase - 0.5% increase	2%
Adjustment to pension increase rate - 0.5% increase	8%
Adjustment to mortality rating assumption - 1 year increase	3-5%

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 2018/19 the Council paid £7.551m to teachers' pensions in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (£7.398m and 17.2% in 2017/18). 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 2018/19 these amounted to £0.713m representing 1.62% of pensionable pay (£0.706m and 1.64% in 2017/18).

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 2019 there were 10,961 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

On 20 December 2018, the Court of Appeal upheld a claim from firefighters and a group of over 200 judges that changes made to their pension scheme were discriminatory based on a member's age (the McCloud case). The government's right to appeal this decision was denied in June 2019 meaning that this legal ruling is now expected to have an impact on other public sector workers who have also seen similar changes to their pension schemes. The impact of this judgment has been reflected in these audited accounts.

Notes to the Core Financial Statements

Note 24 Inventories

2017/18 £'000		2018/19 £'000
906	Balance outstanding at start of year	677
(229)	Movement during year	143
677	Balance outstanding at year-end	820

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 2018	(49)	(238)	(68)	(3,924)	(4,279)
Additional charges to provisions	(28)	(30)	-	(137)	(195)
Payments made or released	5	-	-	5	10
Balance at 31 March 2019	(72)	(268)	(68)	(4,056)	(4,464)
Within 12 Months	(72)	(268)	(68)	(171)	(579)
Over 12 months	-	-	-	(3,885)	(3,885)
Total	(72)	(268)	(68)	(4,056)	(4,464)

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.
- Legal action has been raised against the Council in respect of a failure to conclude a land sale transaction. The matter is subject to ongoing process in the Court of Session.
- On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. However due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on Scottish Borders Council at this time.
- During the year there was a part sale of land to Eildon Housing Association. There is a condition attached to the sale that may require Scottish Borders Council to purchase the land back.

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.
- The European Commission issued a decision which found that European truck manufacturers had engaged in price fixing and other cartel activities over a 14 year period between 1997 and 2011 in relation to trucks over six tonnes. Scottish Borders Council is joining with other Scottish Local Authorities and public bodies to raise legal actions seeking compensation for losses it has suffered as a result of this illegal activity.

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 2018/19.

2017/18 £'000		2018/19 £'000
	Credited to Taxation and Non Specific Grant Income	
(15,363)	General Capital Grant	(14,432)
(5,557)	Other Grants	(9,945)
(1,403)	Developer Contributions	(287)
(22,323)	Total	(24,664)
	Credited to Services	
(424)	Culture & Sport	(389)
(227)	Asset & Infrastructure	(34)
(982)	Economic Development & Corporate Services	(1,184)
(2,264)	Health & Social Care	(4,144)
(1,553)	Children & Young People	(4,576)
(28,733)	Customer & Communities	(27,060)
(105)	Human Resources	(116)
(1,160)	Regulatory Services	(1,328)
(35,448)		(38,831)

Note 29 Financial Instruments

Scottish Borders Council have taken into consideration the requirements of IFRS9 – Financial Instruments and, based on the financial instruments held, do not consider there to be any impact on these Financial Statements or prior year figures.

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 2019			
	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	-	(297,656)	-	(297,656)
Market Debt	-	(572)	-	(572)
Other debt	-	(67,553)	-	(67,553)
Total	-	(365,781)	-	(365,781)

	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)

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 2018	31 March 2019	31 March 2018	31 March 2019
	£000	£000	£000	£000
Loans and Receivables				
Cash and Cash Equivalents	-	-	10,825	4,525
Debtors	5,770	6,315	41,384	37,219
Total Loans and Receivables	5,770	6,315	52,210	41,743
Borrowings				
Financial Liabilities (principal amount)	(194,433)	(195,846)	(5,000)	-
Accrued interest	-	-	(3,288)	(3,275)
Total Borrowings	(194,433)	(195,846)	(8,288)	(3,275)
Other Liabilities				
PPP and finance lease liabilities	(70,323)	(67,322)	(3,060)	(3,027)
Bonds	-	-	(1,460)	(1,400)
Total other long-term liabilities	(70,323)	(67,322)	(4,520)	(4,427)
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(45,609)	(42,998)
Total Creditors	-	-	(45,609)	(42,998)

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 2018			31 March 2019	
£'000	%		£'000	%
(44,801)	22	Bonds and Mortgages	(36,214)	18
(149,632)	74	Public Works Loan Board	(159,632)	80
(194,433)	96	Long term borrowing (> 1 year)	(195,846)	98
(8,288)	4	Short Term Borrowing repayable within 12 months	(3,275)	2
(202,721)	100	Total Borrowing	(199,121)	100

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2018 £'000		2019 £'000
(8,288)	Less than 1 year	(10,774)
-	Between 1 and 2 years	(2,793)
(14,977)	Between 2 and 7 years	(4,097)
(25,500)	Between 7 and 15 years	(25,500)
(153,956)	More than 15 years	(155,956)
(202,721)	Total	(199,120)

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

	2018/19		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	14,366	-	14,366
Interest payable and similar charges	14,366	-	14,366
Interest Income	-	(9)	(9)
Interest and investment income	-	(9)	(9)
Net (gain) / loss for the year	14,366	(9)	14,357

	2017/18		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'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

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 2018		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	(149,632)	(281,384)	(159,632)	(297,656)
Other debt	(53,089)	(86,953)	(39,490)	(68,125)
Total debt	(202,721)	(368,337)	(199,122)	(365,781)
Creditors	(50,129)	(50,129)	(47,425)	(47,425)
Total financial liabilities	(252,850)	(418,466)	(246,547)	(413,206)

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 2018		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables				
Short Term Investments	-	-	-	-
Cash and Cash Equivalents	10,825	10,825	4,525	4,525
Debtors	41,384	41,384	37,219	37,219
Total loans and receivables	52,209	52,209	41,743	41,743

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.

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 2018/19 which incorporates the prudential indicators was approved by the Council on 20 February 2018. The key issues within the strategy were:

- The Authorised Limit for 2018/19 was set at £372.7m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £308.2m. 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 £308.2m and £107.9m 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 2018/19 was approved by the Council on 20 February 2018 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 2019 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 20 February 2018:

	Approved Minimum Limits £'000	Approved Minimum Limits %	Approved Maximum Limits £'000	Approved Maximum Limits %	Actual 31March 2018 £'000	Actual 31March 2019 £'000
Less than one year			61,540	20	8,288	10,774
Between one and two years			61,540	20	0	2,793
Between two and seven years			61,540	20	14,977	4,097
Between seven and fifteen years			61,540	20	25,500	25,500
More than fifteen years	61,540	20	307,700	100	153,956	155,956
Total					202,721	199,120

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	353
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)	63,926

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

Note 30 Debtor and Creditor Analysis

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

Debtors

2017/18 £'000		2018/19 £'000
25,087	Trade Receivables	21,201
3,065	Prepayments	3,361
24,056	Other Receivable Amounts	23,901
52,207		48,463

Creditors

2017/18 £'000		2018/19 £'000
(20,674)	Trade Payables	(13,995)
(29,456)	Other Payables	(33,431)
(50,130)		(47,425)

Debtors for Local Taxation

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

2017/18 £'000		2018/19 £'000
86	Less Than 2 Months	765
116	2 To 4 Months	442
20	4 To 6 Months	54
2,341	6 Months To 1Year	1,943
21,525	More Than 1Year	21,228
24,088		24,892

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 2018	Transfers between reserves and funds	Gains or Losses for the Year	Balance as at 31 March 2019
	£'000	£'000	£'000	£'000
Usable Reserves				
General Fund Balances	(19,726)	(14,762)	16,933	(17,555)
Capital Fund	(7,580)	(1,223)	-	(8,803)
Property Maintenance Fund	(426)	(21)	-	(447)
Insurance Fund	(1,063)	(134)	-	(1,197)
Unusable Reserves				
Capital Adjustment Account	(111,848)	(10,500)	-	(122,348)
Financial Instruments Adjustment Account	4,773	1,987	-	6,760
Revaluation Reserve	(122,328)	5,532	(3,533)	(120,329)
Pensions Reserve	161,071	19,567	16,964	197,602
Employee Statutory Adjustment Account	5,778	(445)	-	5,333
Total	(91,349)	-	30,364	(60,984)

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 2017/18 - Restated

	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	2,498	(625)	(426)	62	1,508	(1,508)	-	
Total in year adjustments	(30,513)	(1,059)	(426)	62	(31,936)	31,936	-	

Notes to the Core Financial Statements

Adjustments between accounting basis & funding basis under regulations 2018/19

	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	(27,141)	-	-	-	(27,141)	27,141	-	12 & 14
Impairment Losses (charged to CI&ES)	(3,412)	-	-	-	(3,412)	3,412	-	
Revaluation Losses	(2,809)	-	-	-	(2,809)	2,809	-	
Capital grants and contributions applied	24,664	-	-	-	24,664	(24,664)	-	28
Employee Statutory Adjustments	444	-	-	-	444	(444)	-	
Profit/(Loss) on disposal of assets	(698)	(1,606)	-	-	(2,304)	2,304	-	
Revenue Exp Funded From Capital under Statute	(42)	-	-	-	(42)	42	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	(1,986)	-	-	-	(1,986)	1,986	-	
Net retirement charges per IAS 19	(29,881)	-	-	-	(29,881)	29,881	-	
Loans Fund principal repayments and Statutory premia	11,394	-	-	-	11,394	(11,394)	-	
Capital Expenditure charged to General Fund balance	1,993	-	-	-	1,993	(1,993)	-	
Employers contribution payable to Pension Fund	10,314	-	-	-	10,314	(10,314)	-	
Net Transfers to or (from) other reserves	2,398	384	(21)	(134)	2,626	(2,626)	-	
Total in year adjustments	(14,762)	(1,223)	(21)	(134)	(16,140)	16,140	-	

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:

2017/18	Analysis as at 31 March	2018/19
£'000		£'000
	Earmarked Reserves	
(2,442)	Children & Young People - Devolved School Management	(1,159)
	Specific Departmental Reserves	
(71)	Culture & Sport	(64)
(499)	Asset & Infrastructure	(228)
(313)	Economic Development & Corporate Services	(93)
	- Health & Social Care	(70)
	- Children & Young People	(393)
(520)	Customer & Communities	(629)
(11)	Finance, IT & Procurement	(412)
(13)	Human Resources	(231)
(864)	Revenue Support Grant / Council Tax	(63)
(3,266)	2nd Homes Council Tax	(4,022)
(5,058)	Allocated Reserves - Financial Plan 18/19	(3,244)
(13,057)		(10,608)
(6,669)	Non-Earmarked Reserve	(6,947)
(19,726)	Total General Fund Reserve	(17,555)

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

2017/18 £'000	Reconciliation to General Fund Surplus	2018/19 £'000
29,081	Net (Surplus) or deficit on the provision of services	16,933
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(25,942)	Depreciation	(27,140)
(25,726)	Impairment & Revaluation Loss through I & E	(6,221)
(70)	Amortisation of intangible assets	(1)
(15,538)	Movement in pension liability	(19,567)
143	Gain/Loss on carrying amounts of assets disposed	(698)
(229)	Net movement in inventories charged to I & E	10
3,835	Net movement in debtors charged to I & E	(2,206)
(9,183)	Net movement in creditors charged to I & E	3,839
(410)	Net movement in provisions charged to I & E	53
(73,120)		(51,931)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
22,323	Capital grants received	24,664
(125)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(861)
22,198		23,803
(21,841)	Net Cash Outflow / (Inflow) from Operating Activities	(11,196)

Note 33

Impairment & Revaluation Losses

During 2018/19 SBC recognised a net impairment and revaluation loss of £6,812m within the Net Cost of Services. This includes a reversal of £0.998m against losses in previous years.

Note 34

Cash and Cash Equivalents

The balance of the cash and cash equivalents is made up of the following elements:

2017/18 £'000		2018/19 £'000
49	Cash held by officers	46
7,996	Bank current accounts	2,479
2,780	Short term deposits	2,000
10,825	Total	4,525

Supplementary Financial Statements

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

2017/18			2018/19	
£'000	£'000		£'000	£'000
	(65,657)	Gross Charges Levied		(68,275)
5,086		Less: Council Tax Reduction Scheme	5,140	
5,086			5,140	
7,173		Discounts and Exemptions	7,660	
706		Provision for bad debts	731	
(20)		Miscellaneous	(240)	
	12,945			13,291
	(52,712)			(54,984)
	(52,712)	Total Income Credited to the Comprehensive Income & Expenditure Statement		(54,984)

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2018

The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) after providing for non-payment, as an equivalent number of band D dwellings and the level of non-payment provided for.

Band	Number of Properties 2017/18	Number of Properties 2018/19	Proportion	2017/18 £	2018/19 £
A	16,567	16,538	6/9	744.35	766.68
B	12,684	12,693	7/9	868.40	894.46
C	7,029	7,098	8/9	992.46	1,022.24
D	5,915	6,007	9/9	1,116.52	1,150.02
E	6,399	6,456	11/9	1,466.98	1,510.99
F	4,788	4,856	13/9	1,814.35	1,868.78
G	4,430	4,493	15/9	2,186.52	2,252.11
H	465	477	18/9	2,735.47	2,817.54
Total	58,278	58,618			

Supplementary Financial Statements

Council Tax Income Account

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 2018/19 the Band D charges were £202.41 for water and £234.99 for waste water.

Non-Domestic Rate Income Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2017/18			2018/19	
£'000	£'000		£'000	£'000
	(48,016)	Gross Rates Levied & Contribution in Lieu		(51,862)
15,436		Less: Reliefs and Other Deductions	15,888	
394		Write-offs of uncollectable debts & allowance for impairment	432	
-		Interest paid on overpaid rates	-	
	15,830			16,320
	(32,186)			(35,542)
	(173)	Net General Fund expenditure on discretionary reliefs		(174)
	(32,359)	Net Non-Domestic Rate Income		(35,716)
	-	Adjustment to Previous Years National Non-Domestic Rates		-
	(32,359)	Contribution to National Pool		(35,716)
	32,673	Distribution received from National Pool		32,790
	(32,673)	Income Credited to the Comprehensive Income & Expenditure Statement		(32,790)

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2019

Classification	Number	Rateable Value £'000
Shops	1,256	20,856
Public Houses	82	1,450
Offices Including Banks	910	8,002
Hotels Etc	128	3,682
Industrial Subjects Including Factories Warehouses and Stores	2,183	27,600
Leisure, Entertainment Caravans and Holiday Sites	1,009	5,753
Garages and Petrol Stations	216	2,334
Cultural	49	542
Sporting Subjects	1,230	2,394
Education and Training	104	10,755
Public Service Subjects	422	5,656
Communications (Non Formula)	6	15
Quarries Mines Etc	12	414
Petrochemical	5	1,307
Religious	291	1,272
Health Medical	99	4,272
Other	461	2,171
Care Facilities	88	1,975
Advertising	8	15
Undertaking	31	4,537
Total	8,590	105,002

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2018/19 was: 48.0p for properties with a rateable value up to £51,000 and 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 32 separate trusts and bequests as at the Balance Sheet date, which is a reduction from the 76 separate trusts and bequests held in the previous year. Following OSCR approval the move of 7 trusts into the SBC Community and Enhancement Trust and 37 into the SBC Welfare Trust was successfully completed from 1st April 2018
- **The Ormiston Trust for Institute** remains as a separately registered trust with OSCR.

All OSCR registered charities are subject to audit, in line with OSCR requirements and a full set of financial statements compliant with those requirements are published separately. The Council also administers a further 46 non registered charities, a reduction of 131 from the previous year following the successful consolidation of a number of trusts and bequests 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 took place from 1st April 2018 and resulted 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

2017/18		Charitable	Other	2018/19
£'000		£'000	£'000	Total £'000
	Income			
(13)	Donations & Legacies	(3)	(11)	(14)
(73)	Investments	(76)	(46)	(122)
(75)	Charitable Activities	-	(11)	(11)
-	Unrealised Gain On Investments	(10)	(8)	(18)
(4)	Recognition Of Fixed Assets & Investments	(684)	-	(684)
	Expenditure			
165	Raising Funds	26	72	98
45	Charitable Activities	388	340	728
9	Other : Governance Costs	3	1	4
4	Unrealised Loss On Investments	-	-	-
58	(Surplus) / Deficit for the Year	(356)	338	(18)
(868)	(Surplus) brought forward	(382)	(595)	(977)
(98)	Funding (brought forward/carried forward) to Revaluation Reserve	(26)	(72)	(98)
(69)	Transfer to Capital Reserve	150	(138)	12
(977)	(Surplus) carry forward	(614)	(467)	(1,081)

Balance Sheet

2017/18		Charitable	Other	2018/19
£'000		£'000	£'000	Total £'000
	Non-current Assets			
1,691	Tangible Fixed Assets	235	1,359	1,594
1,785	Investments	1,019	782	1,801
1	Long term Loan	-	-	-
	Current Assets			
437	Short Term Investments	169	371	540
25	Sundry Debtors	4	11	15
	Current Liabilities			
(6)	Sundry Creditors	-	-	-
3,933	Net Assets	1,427	2,523	3,950
	Financed by			
(977)	Revenue Reserve	(613)	(467)	(1,080)
(1,334)	Capital Reserve	(631)	(715)	(1,346)
(1,622)	Revaluation Reserve	(183)	(1,341)	(1,524)
(3,933)		(1,427)	(2,523)	(3,950)

Common Good Funds

The Council administers the Common Good Funds for twelve towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2019, for each of the funds. The accounting policies applied are those as set out in pages 54 to 66.

All funds are invested in the Kames Capital Plc diversified income fund.

From 1 April 2018 Common Goods at Coldstream and Eyemouth have been recognised with the inclusion of several assets relating to both funds.

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

2017/18 Restated £'000		Coldstream £'000	Duns £'000	Eyemouth £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Melrose £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income													
(39)	Donations & Legacies	-	-	-	-	(1)	-	(1)	(1)	-	-	-	(1)	(4)
(75)	Investments	-	(1)	-	(9)	(25)	-	(5)	(14)	(5)	-	(24)	(5)	(54)
(26)	Charitable Activities	-	-	-	-	(15)	-	-	-	(11)	-	(56)	(6)	(243)
	Unrealised Gain On Investments	-	-	-	(1)	(5)	-	(10)	(2)	(3)	-	(4)	(3)	(28)
0	Recognition Of Fixed Assets & Investments	-	-	-	(1)	-	-	-	-	-	-	-	-	(1)
(330)		-	(1)	-	(11)	(146)	-	(62)	(17)	(29)	-	(84)	(80)	(430)
	Expenditure													
53	Raising Funds	9	-	-	34	98	17	12	43	15	3	46	54	431
85	Charitable Activities	-	-	-	3	42	-	5	2	2	-	19	18	101
60	Other: Governance Costs	-	-	-	2	11	-	4	2	10	-	8	11	48
8	Unrealised Loss On Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
666		9	0	0	39	151	17	31	47	27	3	73	183	580
336	(Surplus) / Deficit carry forward	9	(1)	-	28	5	17	(31)	30	(2)	3	(11)	103	150

Common Good Funds

Balance Sheet

Total Restated 2017/18 £'000		2018/19												
		Coldstream £'000	Duns £'000	Eyemouth £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Melrose £'000	Peebles £'000	Selkirk £'000	Total £'000
	Non-current Assets													
10,765	Tangible Assets	216	-	2	518	3,518	256	442	713	983	32	766	3,044	10,490
2,659	Investments	-	17	-	160	460	-	90	267	250	-	447	269	2,780
35	Long Term Loan to Third Party	-	-	-	-	-	-	21	-	3	-	-	-	24
	Current Assets													
54	Sundry Debtors	-	-	-	1	31	-	4	1	8	-	2	52	99
259	Short Term Investments	-	1	-	6	23	-	64	29	39	-	66	(73)	155
	Current Liabilities													
(89)	Sundry Creditors	-	-	-	-	(10)	-	-	-	(1)	-	(3)	(1)	(15)
13,683	Net Assets	216	18	2	685	4,022	256	1,441	1,010	1,282	32	1,278	3,291	13,533
	Financed by													
(3,560)	Restricted Income Funds	(122)	(18)	(1)	(320)	(638)	(135)	(1,002)	(297)	(302)	(18)	(562)	(268)	(3,683)
(10,123)	Revaluation Reserve	(94)	-	(1)	(365)	(3,384)	(121)	(439)	(713)	(980)	(14)	(716)	(3,023)	(9,850)
(13,683)	Total Reserves	(216)	(18)	(2)	(685)	(4,022)	(256)	(1,441)	(1,010)	(1,282)	(32)	(1,278)	(3,291)	(13,533)

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 117 to 123.

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
- Lowood Tweedbank Limited

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 111 to 114. 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. It should be noted that the 2018/19 draft annual accounts for SB Cares LLP and SB Supports LLP have been used in the group consolidation.

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.

Lowood Tweedbank Limited was established on 30 November 2018 to act as mid-landlord of the residential properties at Lowood Estate in order to ensure the continuation of the tenancy arrangements. The financial statements for Lowood Tweedbank Limited are available from Council Headquarters.

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 38.7% based on the Council's contribution to incoming resources. Jedburgh Leisure Facilities Trust's accounting period is to 31 March and, for the purposes of consolidation, the financial statements for the period ending 31 March 2019 have been used. The company's Statement of Financial Activities shows an operating loss of £0.005m for the year to 31 March 2019 of which £0.002m has been included in the Group Accounts. The company's draft Balance Sheet as at 31 March 2019 shows net assets of £0.018m of which £0.006m 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 £186m for the year of which £0 has been consolidated into the Group Accounts. Both the Balance Sheet and Movement in Reserves Statement show a net position of £0 for 2018/19.

The financial statements for the Scottish Borders Integration Joint Board are available from the Council Headquarters.

Group Movement In Reserves Statement

Movement in reserves during 2017/18 - 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 01/04/2017	(25,940)	(8,329)	(34,269)	28,176	(5,768)	22,408	(11,861)

Movement in reserves during 2017/18

Total Comprehensive Income & Expenditure	29,081	184	29,265	(122,666)	997	(121,669)	(92,404)
Adjustments between accounting basis & funding basis under regulations	(31,936)	(374)	(32,310)	31,936	374	32,310	-
Increase or Decrease in 2017/18	(2,855)	(190)	(3,045)	(90,730)	1,371	(89,359)	(92,404)
Balance at 31/03/2018 carried forward	(28,795)	(8,519)	(37,314)	(62,554)	(4,397)	(66,951)	(104,265)

Movement in reserves during 2018/19

	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 01/04/2018	(28,795)	(8,519)	(37,314)	(62,554)	(4,397)	(66,951)	(104,265)

Movement in reserves during 2018/19

Total Comprehensive Income & Expenditure	16,933	(390)	16,543	13,431	4,013	17,444	33,987
Adjustments between accounting basis & funding basis under regulations	(16,140)	(370)	(16,510)	16,140	370	16,510	-
Increase or Decrease in 2018/19	793	(760)	33	29,571	4,383	33,954	33,987
Balance at 31/03/2019 carried forward	(28,002)	(9,279)	(37,281)	(32,983)	(14)	(32,997)	(70,278)

Group Comprehensive Income and Expenditure Statement

2017/18 Restated				2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
15,650	(4,977)	10,674	Culture & Sport	13,067	(4,788)	8,279
57,941	(14,763)	43,178	Asset & Infrastructure	60,643	(11,284)	49,359
2,364	(1,102)	1,263	Economic Development & Corporate Services	4,686	(1,894)	2,792
123,051	(69,791)	53,260	Health & Social Care	128,082	(73,752)	54,330
134,146	(4,837)	129,309	Children & Young People	114,459	(5,466)	108,993
45,851	(29,964)	15,888	Customer & Communities	42,806	(29,599)	13,207
16,234	(215)	16,019	Finance, IT & Procurement	18,349	(431)	17,918
6,092	(404)	5,688	Human Resources	7,046	(460)	6,586
18,730	(5,535)	13,195	Regulatory Services	20,024	(6,554)	13,470
4,118	-	4,118	Non-Distributed Costs	7,005	-	7,005
659	(255)	404	Common Good	580	(247)	333
152	(88)	64	Trust Funds	830	(25)	805
72	(74)	(2)	Share of Operating Results of Associates & Joint Ventures	73	(71)	2
425,061	(132,004)	293,056	Services provided by the Council	417,651	(134,571)	283,079
425,061	(132,004)	293,056	Net Cost of Services	417,651	(134,571)	283,079
8,027	(7,936)	91	Roads Trading Operation (Surplus)/Deficit (External)	4,374	(4,500)	(126)
			Other Operating Expenditure			
291	(434)	(143)	(Gain)/Loss on Disposal of Assets	2,304	(1,606)	698
			Financing & Investment Income and Expenditure			
11,681	-	11,681	Interest Payable & Similar Charges	14,366	-	14,366
-	(68)	(68)	Interest Receivable & Similar Income	-	(192)	(192)
20,988	(15,059)	5,929	Net Interest Expense on the Net Defined Benefit Liability	19,356	(15,055)	4,301
-	-	-	Share Of Associates & Joint Ventures Interest Payable	-	-	-
			Taxation and Non-Specific Grant Income			
-	(170,707)	(170,707)	Revenue Support Grant	-	(169,560)	(169,560)
-	(32,673)	(32,673)	Non-Domestic Rates Pool for Scotland	-	(32,790)	(32,790)
12,945	(65,657)	(52,712)	Council Tax	-	(54,984)	(54,984)
-	(22,323)	(22,323)	Capital Grants and Contributions	-	(24,664)	(24,664)
		32,131	(Surplus)/Deficit on Provision of Services			20,128

Group Comprehensive Income and Expenditure Statement

2017/18				2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		32,131	(Surplus)/Deficit on Provision of Services			20,128
		(53,920)	(Surplus)/Deficit on revaluation of Non Current Assets			(3,522)
		1,504	Any Other (Gains) Or Losses			(867)
		(72,119)	Actuarial (gains)/losses on pension assets/liabilities			18,248
		(124,535)	Other Comprehensive Income and Expenditure			13,859
		(92,404)	Total Comprehensive (Income)/Expenditure			33,987

Group Balance Sheet

2017/18 Restated £'000		2018/19 £'000
399,227	Property Plant and Equipment	400,657
17,305	Other Land and Buildings	19,519
125,999	Vehicle, Plant, Furniture & Equipment	128,178
4,742	Infrastructure	3,561
9,807	Surplus Assets	21,488
1,061	Assets Under Construction	1,061
6	Heritage Assets	61
4,444	Intangible Assets	4,583
8	Long Term Investments	6
1,205	Investments in Associates & Joint Ventures	728
563,805	Long Term Assets	579,842
201	Intangible Assets - Current	14
-	Short Term Investments	-
825	Inventories	1,014
43,205	Short Term Debtors	39,966
(10,823)	less Bad Debt Provision	(11,244)
14,169	Cash and Cash Equivalents	6,897
47,576	Current Assets	36,647
(8,288)	Short Term Borrowing	(3,275)
(45,534)	Short Term Creditors	(41,922)
(512)	Provisions	(579)
(54,333)	Current Liabilities	(45,776)
(194,556)	Long Term Borrowing	(195,855)
(70,323)	Deferred Liabilities	(67,322)
(3,767)	Provisions	(3,885)
(14,804)	Capital Grants Receipts in Advance	(23,509)
(283,449)	Long Term Liabilities	(290,571)
273,598	Net Assets excluding pension liability	280,142
(169,333)	Pension Liability	(209,864)
104,265	Net Assets/(Liabilities) including pension liability	70,278

Group Balance Sheet

2017/18 £'000	Financed By:	2018/19 £'000
	Useable Reserves	
(7,580)	Capital Fund	(8,803)
(19,726)	General Fund Balance	(17,555)
(426)	Property Maintenance Fund	(447)
(1,063)	Insurance Fund	(1,197)
(8,519)	Share of Group Entities Usable Reserves	(9,279)
	Unusable Reserves	
(111,848)	Capital Adjustment Account	(122,348)
4,773	Financial Instruments Adjustment Account	6,760
(122,328)	Revaluation Reserve	(120,329)
161,071	Pension Reserve	197,602
5,778	Employee Statutory Adjustment Account	5,333
(4,397)	Share of Group Entities Unusable Reserves	(15)
(104,265)	Total Reserves	(70,278)

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Group Cash Flow Statement

2017/18 Restated £'000		2018/19	
		£'000	£'000
32,131	Net (Surplus) or deficit on the provision of services	20,128	
2	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)	
(74,686)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(54,173)	
22,159	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	23,273	
(20,393)	Net Cash Flows From Operating Activities		(10,774)
	Investing Activities		
47,562	Purchase of PP&E, investment property and intangible assets	51,098	
(434)	Proceeds from PP&E, investment property and intangible assets	(1606)	
122	Purchase/(Disposal) of short & long term investments	93	
(25,184)	Other Items which are Investing Activities	(36,256)	
22,066	Net Cash Flows from Investing Activities		13,329
	Financing Activities		
(10,312)	Cash received from loans & other borrowing	(10,011)	
3,655	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,999	
4,103	Repayments of short and long term borrowing	10,867	
125	Other items which are financing activities	860	
(2,429)	Net Cash Flows from Financing Activities		4,715
(756)	Net (Increase) or Decrease in Cash and Cash Equivalents		7,270
13,413	Cash and Cash Equivalents at the beginning of the reporting period		14,169
14,169	Cash and Cash Equivalents at the end of the reporting period		6,899
(756)	Movement		7,270

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 54 to 66.

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:

2017/18 Restated £'000	Reconciliation to General Fund Surplus	2018/19 £'000
32,131	Net (Surplus) or deficit on the provision of services	20,128
2	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	
(26,746)	Depreciation	(28,032)
(25,740)	Impairment & Revaluation Loss through I & E	(6,280)
(70)	Amortisation of intangible assets	(1)
(18,477)	Movement in pension liability	(22,283)
143	Gain/Loss on carrying amounts of assets disposed	(698)
(200)	Net movement in inventories charged to I & E	57
4,635	Net movement in debtors charged to I & E	(1,197)
(7,821)	Net movement in creditors charged to I & E	4,208
(410)	Net movement in provisions charged to I & E	53
(74,686)		(54,173)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
22,323	Capital grants received	24,664
(164)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(1,391)
22,159		23,273
(20,393)	Net Cash Outflow / (Inflow) from Operating Activities	(10,774)

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 £30.4m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group deficit of £34.0m. The net asset position of the Council's single entity Balance Sheet of £61.0m becomes £70.3m on group consolidation. Overall, the Group Balance Sheet position has decreased by £34.0m from 2017/18 largely as a result of the increased pension liability.

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 12 former burghs, Coldstream, Duns, Eyemouth, 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.

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.

Glossary of Terms

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.

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.

Glossary of Terms

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.

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

Scottish Borders Council

Common Good Funds

Charity Registration Number: SC031538

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	4
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	8
Financial Statements	
Statement of Financial Activities	9
Balance Sheet	10
Cash Flow Statement	11
Accounting Policies	12
Notes to the Financial Statements	14
Independent Auditors' Report	21
Additional Information	24

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 twelve 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

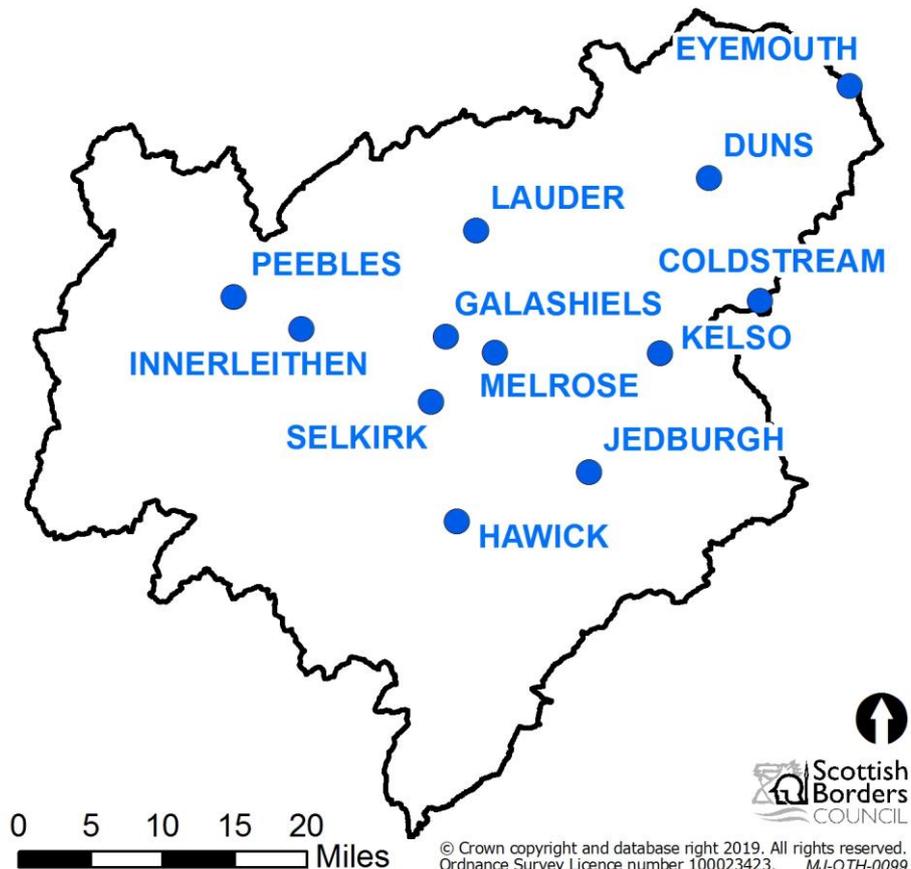
The Trustees present their Annual Report and the Financial Statements for the year ended 31 March 2019.

Structure

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



In 2018/19 assets were recognised as Common Good Assets in both Coldstream and Eyemouth, thereby creating the Coldstream Common Good Fund and the Eyemouth 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 15.
- Most of the individual funds have made donations to eligible beneficiaries in their Burghs with a total of £100,902 being paid out in the year.

Plans for the Future

- The Common Good Funds will continue to **maintain their heritable assets and will look to maximise their income** from any of these assets which are let commercially. Where assets are used by third parties towards the Common Good of the Burgh then rental levels may reflect this aspect of the tenants' activity.
- Where funds permit, the Common Good Funds will look to make grants to organisations in their Burghs which will provide benefit to the Burgh residents, as approved by the individual Common Good Committees.

Governance and Management

Type of Governing Documents

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

Financial
Regulations

Code of
Corporate
Governance

Procedural
Standing
Orders

Scheme of
Administration

Scheme of
Delegation

- c) When considering any action in connection with the Common Good Funds the Trustees have regard to the interests of the inhabitants of the area to which the Common Good formerly related.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with Financial Reporting Standard 102 (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2019, the reserves of the Common Good Funds amounted to:

- Restricted Income Funds - £3,683k
- Revaluation Reserves - £9,850k

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.

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 2019 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

Sandy Aitchison	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	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		

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
26 September 2019

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 2019

2017/18 £'000 RESTATED		2018/19 £'000	Notes
	Income from:		
39	Donations and legacies	4	1
75	Investments	154	2
216	Charitable activities	243	3
330	Total Income	401	
	Expenditure on:		
(513)	Raising funds	(431)	
(85)	Charitable activities	(101)	
(60)	Other: governance costs	(48)	5
(658)	Total Expenditure	(580)	4
(8)	(Losses) / gains on investment assets – unrealised	28	12
(336)	Net Income / (Expenditure)	(151)	
	Other Recognised Gains / (Losses)		
0	Recognition of Investments	1	
(336)	Net Movement in Funds	(150)	
	Reconciliation of Funds		
14,019	Total funds brought forward	13,683	
13,683	Total Funds Carried Forward	13,533	

BALANCE SHEET as at 31 March 2019

as at 31 March 2018 RESTATED			as at 31 March 2019		Notes
£'000	£'000		£'000	£'000	
		Long Term Assets			
		Tangible fixed assets:			
10,740		- Land & buildings	10,465		6
25		- Heritage assets	25		
2,659		Investments	2,780		7
35		Long term loan to third party	24		8
	13,459	Total Long Term Assets		13,294	
		Current Assets			
54		Debtors	99		9
259		Short term investment in SBC loans fund	155		10
	313	Total Current Assets		254	
		Current Liabilities			
		Creditors:			
	(89)	Amounts falling due within 1 year		(15)	11
	224	Net Current Assets		239	
	13,683	Total Net Assets		13,533	
		The Funds of the Charity			
	(3,560)	Restricted income funds		(3,683)	12
	(10,123)	Revaluation reserve		(9,850)	13
	(13,683)	Total Charity Funds		(13,533)	

All income and expenditure transactions derive from continuing activities.

The Accounting Policies on pages 12 and 13 and the Notes on pages 14 to 18 form part of these Financial Statements.

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Shona Haslam
Trustee
Scottish Borders Council Common Good Funds
26 September 2019

CASH FLOW STATEMENT as at 31 March 2019

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 2018 RESTATED			as at 31 March 2019		Notes
£'000	£'000		£'000	£'000	
		Cash Flows from Operating Activities			
	(5)	Net cash provided by / (used in) operating activities		(176)	14
		Cash flows from Investing Activities			
75		Dividends and Interest	154		
(10)		(Purchase) of tangible fixed assets	0		
(67)		(Purchase) of investments	(93)		
(5)		Movement in short term investments	104		
	(7)	Net Cash Flows from Investing Activities		165	
		Cash flows from Financing Activities			
12		Cash Received from Loans	11		
	12	Net Cash Flows from Financing Activities		11	
	0	Net Movement in Cash		0	

ACCOUNTING POLICIES

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

Basis of Preparation

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, comprising land & buildings and heritage 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.

Where purchased, Heritage assets are held at acquisition cost, and for donations the initial valuation is used as the deemed cost, removing the need for subsequent valuations. These Heritage assets are deemed to have indeterminable lives and accordingly depreciation is not charged.

Land is held at current valuation and is not depreciated. All land and buildings 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 and heritage assets 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

2017/18 £'000 RESTATED		2018/19 £'000
0	Coldstream	0
1	Duns	0
0	Eyemouth	0
1	Galashiels	0
7	Hawick	1
0	Innerleithen	0
1	Jedburgh	1
1	Kelso	1
7	Lauder	0
0	Melrose	0
3	Peebles	0
18	Selkirk	1
39		4

2 Income from Investments

2017/18 £000		2018/19 £'000
2	Bank Interest Receivable from SBC Loans Fund	2
73	Income from Investment Portfolio	152
75		154

3 Analysis of Charitable Income

Charitable income is comprised of rental income for properties which are owned by Common Good Funds and let commercially.

2017/18 £'000		2018/19 £'000
0	Coldstream	0
0	Duns	0
0	Eyemouth	0
0	Galashiels	0
106	Hawick	115
0	Innerleithen	0
0	Jedburgh	0
0	Kelso	0
11	Lauder	11
0	Melrose	0
42	Peebles	56
57	Selkirk	61
216		243

4 Analysis of Charitable Expenditure

2017/18 Total RESTATED £'000		Activities Undertaken Directly £'000	Support and Governance Costs £'000	Property Cost & Depreciation £'000	2018/19 Total £'000
9	Coldstream	0	0	9	9
3	Duns	0	0	0	0
0	Eyemouth	0	0	0	0
45	Galashiels	3	2	34	39
196	Hawick	42	11	98	151
17	Innerleithen	0	0	17	17
66	Jedburgh	15	4	12	31
56	Kelso	2	2	43	47
45	Lauder	2	10	15	27
3	Melrose	0	0	3	3
100	Peebles	19	8	46	73
118	Selkirk	18	11	154	183
658		101	48	431	580

5 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. The fee for the external audit of the charity is charged against Scottish Borders Council General Fund and notionally recharged to the Common Good Funds, recognised under Governance Costs. This fee amounted to £3,500 in 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

6 Tangible Fixed Assets

The change in the value of tangible fixed assets has been driven by the following movements:

As at 31 March 2018 RESTATED Total £'000		as at 31 March 2019		
		Asset Additions £'000	Depreciation £'000	Total £'000
225	Coldstream	0	9	216
0	Duns	0	0	0
2	Eyemouth	0	0	2
552	Galashiels	0	34	518
3,558	Hawick	0	40	3,518
273	Innerleithen	0	17	256
454	Jedburgh	0	12	442
755	Kelso	0	42	713
995	Lauder	0	12	983
35	Melrose	0	3	32
803	Peebles	0	37	766
3,113	Selkirk	0	69	3,044
10,765		0	275	10,490

Tangible fixed assets are broken down between Land & buildings and Heritage assets as follows:

As at 31 March 2018 RESTATED		as at 31 March 2019		
		Land & Buildings at Net Book Value £'000	Heritage Assets £'000	Total Long Term Assets £'000
Total				
£'000				
225	Coldstream	216	0	216
0	Duns	0	0	0
2	Eyemouth	2	0	2
552	Galashiels	518	0	518
3,558	Hawick	3,515	3	3,518
273	Innerleithen	256	0	256
454	Jedburgh	442	0	442
755	Kelso	694	19	713
995	Lauder	983	0	983
35	Melrose	32	0	32
803	Peebles	764	2	766
3,113	Selkirk	3,043	1	3,044
10,765		10,465	25	10,490

7 Investments

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

At 31 March 2019 all investments were with the Kames Capital plc Diversified Monthly Income Fund. Investment amounts and unrealised gains on these investments at 31 March 2019, per Common Good Fund are detailed below:

As at 31 March 2018		as at 31 March 2019		
		Additional Investments £'000	Kames Unrealised Gain £'000	Total Investment £'000
Total Investment				
£'000				
0	Coldstream	0	0	0
17	Duns	0	0	17
0	Eyemouth	0	0	0
149	Galashiels	10	1	160
455	Hawick	0	5	460
0	Innerleithen	0	0	0
900	Jedburgh	0	10	910
243	Kelso	22	2	267
246	Lauder	1	3	250
0	Melrose	0	0	0
418	Peebles	25	4	447
231	Selkirk	35	3	269
2,659		93	28	2,780

8 Long Term Loan to Third Party

Balance at 31 March 2018 £'000		Repayments received £'000	Balance at 31 March 2019 £'000
29	Jedburgh	8	21
6	Lauder	3	3
35		11	24

9 Debtors

2017/18 £'000		2018/19 £'000
40	Trade debtors	30
12	Prepayments and accrued income	67
2	Other debtors	2
54		99

10 Short Term Investments in SBC Loans Fund

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

11 Creditors: amounts falling due within 1 year

2017/18 £'000		2018/19 £'000
0	Grants payable	0
89	Accruals and deferred income	15
89		15

12 Restricted Income Funds

Balance at 31 March 2018 £'000 RESTATED		SOFA Surplus / (loss)	Unrealised movement on investment assets	Balance at 31 March 2019 £'000
122	Coldstream	0	0	122
17	Duns	1	0	18
1	Eyemouth	0	0	1
314	Galashiels	7	(1)	320
605	Hawick	38	(5)	638
135	Innerleithen	0	0	135
960	Jedburgh	52	(10)	1,002
284	Kelso	15	(2)	297
289	Lauder	16	(3)	302
18	Melrose	0	0	18
513	Peebles	53	(4)	562
302	Selkirk	(31)	(3)	268
3,560		151	(28)	3,683

13 Revaluation Reserve

Balance at 31 March 2018 £'000 RESTATED		SOFA Surplus / (loss)	Balance at 31 March 2019 £'000
103	Coldstream	(9)	94
0	Duns	0	0
1	Eyemouth	0	1
399	Galashiels	(34)	365
3,422	Hawick	(38)	3,384
138	Innerleithen	(17)	121
451	Jedburgh	(12)	439
756	Kelso	(43)	713
991	Lauder	(11)	980
17	Melrose	(3)	14
753	Peebles	(37)	716
3,092	Selkirk	(69)	3,023
10,123		(273)	9,850

14 Reconciliation of net income/(expenditure) to net cash flow from Operating Activities

2017/18 RESTATED £'000		2018/19 £'000
(336)	Net income/(expenditure) for the year ended 31 March	(150)
	<i>Adjustments for:</i>	
276	Depreciation charges	275
108	(Gains) / losses on Investments	(28)
(75)	Dividends and interest	(154)
(34)	(Increase) / decrease in debtors	(45)
66	Increase / (decrease) in creditors	(74)
(10)	Other non-cash item	0
(5)	Net cash provided by / (used in) operating activities	(176)

15 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.

16 Related Party Transactions

Due to the nature of the operations and composition of the Common Good Funds (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	1,695
Service Charge paid for central administrative support	(45,818)

17 Restatement of prior year balances

The published figures for 2017/18 have been restated to recognise new Common Good Funds for Melrose, Coldstream and Eyemouth; and to correct the balance between the restricted income funds and the revaluation reserve for Selkirk (£10k). The opening balances as at 1 April 2017 have increased by a total of £274k in recognition of assets and corresponding reserves belonging to Melrose £38k, Coldstream £234k and Eyemouth £2k.

STATEMENT OF FINANCIAL ACTIVITIES	2017/18 published accounts £'000	2017/18 restated balances £'000
Income from:		
Donations and legacies	77	39
Investments	75	75
Charitable activities	216	216
Total Income	368	330
Expenditure on:		
Raising funds	(504)	(513)
Charitable activities	(85)	(85)
Other: governance costs	(60)	(60)
Total Expenditure	(649)	(658)
(Losses)/gains on investment assets -unrealised	(8)	(8)
Net Movement in Funds	(289)	(336)
Reconciliation of Funds		
Total funds brought forward	13,745	14,019
Total Funds Carried Forward	13,456	13,683

BALANCE SHEET	2017/18 published accounts £'000	2017/18 restated balances £'000
Long Term Assets		
Tangible fixed assets – Land & buildings	10,513	10,740
Tangible fixed assets – Heritage assets	25	25
Investments	2,659	2,659
Long term loan to third party	35	35
Total Long Term Assets	13,232	13,459
Current Assets		
Debtors	54	54
Short term investment in SBC loan fund	259	259
Total Current Assets	313	313
Current Liabilities		
Creditors: Amounts falling due within 1 year	(89)	(89)
Net Current Assets	224	224
Total Net Assets	13,456	13,683
The Funds of the Charity		
Restricted income funds	(3,464)	(3,560)
Revaluation reserve	(9,992)	(10,123)
Total Charity Funds	13,456	13,683

CASH FLOW STATEMENT	2017/18 published accounts £'000	2017/18 restated balances £'000
Cash Flows from Operating Activities		
Net cash provided by / (used in) operating activities	33	(5)
Cash flows from Investing Activities		
Dividends and Interest	75	75
(Purchase) of tangible fixed assets	(48)	(10)
(Purchase) of investments	(67)	(67)
Movement in short term investments	(5)	(5)
Net Cash Flows from Investing Activities	(45)	(7)
Cash Flows from Financing Activities		
Cash Received from Loans	12	12
Net Cash Flows from Financing Activities	12	12
Net Movement in Cash	0	0

INDEPENDENT AUDITOR'S REPORT

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

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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

This page is intentionally left blank

Scottish Borders Council

Welfare Trust

Charity Registration Number: SC044765

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	3
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	7
Financial Statements	
Statement of Financial Activities	8
Balance Sheet	9
Accounting Policies	10
Notes to the Financial Statements	12
Independent Auditor's Report	16
Additional Information	19

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 2019.

Structure

On 21 December 2017, Scottish Borders Council approved the delegation of authority 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 donations totalling £233 during the financial year to 31 March 2019.
- 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

- The fund will be promoted via Scottish Borders Council web site and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have 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 2019, the reserves of the SBC Welfare Trust amounted to:

- Restricted Income Funds - £726,844

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 Scottish Borders Council 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 2019 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

Sandy Aitchison	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	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		

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
26 September 2019

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, 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 2019

2017/18 £		2018/19 £	Notes
	Income From:		
500	Donations and legacies	500	1
2,705	Investments	36,459	
3,205	Total Income	36,959	
	Expenditure on:		
(3,613)	Raising funds	0	2
300	Charitable activities	(233)	
(825)	Other: Governance costs	(500)	3
(4,138)	Total Expenditure	(733)	
(307)	(Loss) / gain on investment assets	6,301	
(1,240)	Net Income / (Expenditure)	42,527	
	Other Recognised Gains / (Losses)		
0	Recognition of Investments	574,589	4
(1,240)	Net Movement in Funds	617,116	
	Reconciliation of Funds		
110,968	Total funds brought forward	109,728	
109,728	Total Funds Carried Forward	726,844	9

BALANCE SHEET as at 31 March 2019

as at 31 March 2018			as at 31 March 2019		Notes
£	£		£	£	
94,571	94,571	Fixed Assets			
		Investments	624,488		5
				624,488	
		Current Assets			
0	15,157	Debtors	2,643		6
15,157		Short term investment in SBC loans fund	99,713		7
				102,356	
		Current Liabilities			
		Creditors:			
	0	Amounts falling due within 1 year		0	8
	15,157	Net Current Assets		102,356	
	109,728	Total Net Assets		726,844	
		The Funds of the Charity			
(109,728)		Restricted income funds	(726,844)		9
	(109,728)	Total Charity Funds		(726,844)	

All income and expenditure transactions derive from continuing activities.

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

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Shona Haslam
Trustee
Scottish Borders Council Welfare Trust
26 September 2019

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 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

2017/18 £		2018/19 £
47	Bank Interest Receivable	417
2,658	Income from Investment Portfolio	36,042
2,705		36,459

2 Charitable Activities

The charitable activities during 2018/19 are shown in note 9 by individual fund within the charity.

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 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

4 Recognition of Investments

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

Fund	Restricted by Area	Restricted by Purpose	1 April 2018 Balance £
Brown Bequest	Tweeddale	a & b	419
Clive Craig-Brown Bequest	Selkirkshire	a & b	16,371
Dalrymple's Mortification	Lauder	a & b	1,567
Dunlop Bequest	Berwickshire	a & b	103,812
Edgar Bequest	Jedburgh & District	a & b	1,801
Elliot Mortification	Hawick & Denholm	a & b	3,126
Ewan Trust	Hawick & Denholm	a & b	3,178
Ex Provost Mercer's Bequest No1	Galashiels & District	a & b	1,029
Ex Provost Mrs Laidlaw's Benefaction	Jedburgh & District	a & b	200
Ferguson Dalwhinny Fund	Tweeddale	a & b	16,915
G D Gibson's Bequest	Galashiels & District	a & b	2,336
George D Gibson's Bequest	Selkirkshire	a & b	10,210
Henry Laidlaw Trust	Jedburgh & District	a & b	1,806
James West Brown's Bequest	Jedburgh & District	a & b	80
Jedburgh Coal Fund	Jedburgh & District	a & b	11,396
John Herbetson Bequest	Jedburgh & District	a & b	1,473
John Hunter's Bequest	Jedburgh & District	a & b	230
John Murray's Bequest	Jedburgh & District	a & b	92

**Scottish Borders Council Welfare Trust
Annual Report and Financial Statements For The Year To 31 March 2019**

Joshua Goodfellow's Bequest	Hawick Denholm & Hermitage	a & b	347
Lands at Calfward	Berwickshire	a & b	26
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	2,044
Mrs Adams Bequest	Hawick Denholm & Hermitage	a & b	418
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	6,401
T J S Roberts Trust	Selkirkshire	a & b	12,137
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	455
Total Funds Transferred			361,616

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

Fund	Restricted by Area	Restricted by Purpose	1 April 2018 Balance £
Marion Law Bequest	Hawick Denholm/Hawick & Hermitage	a&b	9,477
J J Barr Bequest	Jedburgh & District	a&b	498
Holidays at Home Week (1943)	Jedburgh & District	a&b	95
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	828
Colvins Fund (Lauder)	Lauder	a&b	4,585

Scottish Borders Council Welfare Trust
Annual Report and Financial Statements For The Year To 31 March 2019

Miss Annzilla P.Tillie's Bequest	Lauder	a&b	5,108
William Hill Trust No2	Melrose & District	a&b	6,221
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	1,362
Robert's Trust	Selkirkshire	a&b	22,015
R. Laidlaw's Gift	Tweeddale	a&b	537
Disabled Sailors' & Soldiers fund for Peeblesshire	Tweeddale	a&b	6,566
Frank Mathieson's Bequest	Tweeddale	a&b	305
Mrs Buist's Bequest	Tweeddale	a&b	661
Total Funds Transferred			212,973

5 Investments

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

At 31 March 2019 all investments were with the Kames Capital Diversified Monthly Income Fund.

6 Debtors

2017/18 £		2018/19 £
0	Prepayments and accrued income	2,643
0		2,643

7 Short Term Investments in SBC Loans Fund

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

8 Creditors: amounts falling due within 1 year

2017/18 £		2018/19 £
0	Grants payable	0
0		0

9 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. Income includes the unrealised gain on the Kames investment during the year and the funds received from Scottish Borders Council Charitable Trusts and non-registered trusts.

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

2017/18 Balance RESTATED	Restricted by Area	Restricted by Purpose	Income	Expenditure	2018/19 Balance
£	£		£	£	£
3,753	Berwickshire	a&b	220,495	148	224,100
4,550	Galashiels & District	a&b	120,785	288	125,047
8,173	Hawick, Denholm & Hermitage	a&b	14,306	15	22,464
19,979	Jedburgh & District	a&b	23,563	29	43,513
8,805	Leaderdale & Melrose	a&b	519	6	9,318
7,078	Tweeddale East & West	a&b	427	5	7,500
721	Tweeddale East & West	Unrestricted	44	1	764
56,669	Mid & East Berwickshire	a&b	3,209	37	59,841
0	Hawick & Hermitage	c	26,807	17	26,790
0	Hawick & Hermitage	a&b	584	0	584
0	Hawick Denholm	a&b	7,170	5	7,165
0	Jedburgh & District	c	21,677	17	21,660
0	Kelso & District	a&b	7,224	5	7,219
0	Selkirkshire	a&b	89,244	59	89,185
0	Lauder	a&b	16,943	46	16,897
0	Melrose & District	a&b	7,718	5	7,713
0	Tweeddale	a&b	56,808	50	56,758
0	Bowden	a&b	326	0	326
109,728			617,849	733	726,844

10 Related Party Transactions

Due to the nature of the operations and composition of the SBC Welfare Trust (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	417

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Welfare Trust and the Accounts Commission

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 the year ended 31 March 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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

Scottish Borders Council

Education Trust

Charity Registration Number: SC044762

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	3
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	7
Financial Statements	
Statement of Financial Activities	8
Balance Sheet	9
Accounting Policies	10
Notes to the Financial Statements	12
Independent Auditor's Report	14
Additional Information	17

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 has been ongoing throughout the year and a further report will be submitted to Scottish Borders Council during 2019/20 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 2019.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21 May 2015 approved the delegation of authority to the Services Director of Children and Young People for the following:

1. Make payments to individuals from educational trusts and SBC Education Trust according to set criteria.

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 2019.

Plans for the Future

- The fund will be promoted via Scottish Borders Council web site 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 2019/20.

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 2019, the reserves of the SBC Education Trust amounted to:

- Restricted Income Funds - £6,905

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 Scottish Borders Council 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 2019 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

Sandy Aitchison	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	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		

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
26 September 2019

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, 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 2019

2017/18 £		2018/19 £	Notes
	Income from:		
500	Donations and legacies	500	3
382	Investments	553	1
882	Total Income	1,053	
	Expenditure on:		
(191)	Raising funds	0	
(50)	Charitable activities	(50)	2
(517)	Other : Governance costs	(500)	3
(758)	Total Expenditure	(550)	
(16)	(Loss) / gains on investment assets	51	
108	Net Income / (Expenditure)	554	
	Other Recognised Gains / (Losses)		
4,432	Recognition of Investments	0	
4,540	Net Movement in Funds	554	
	Reconciliation of Funds		
1,811	Total funds brought forward	6,351	
6,351	Total Funds Carried Forward	6,905	7

BALANCE SHEET as at 31 March 2019

as at 31 March 2018			as at 31 March 2019		Notes
£	£		£	£	
5,004	5,004	Fixed Assets			
		Investments	5,060		4
				5,060	
0	1,347	Current Assets			
		Debtors	22		5
1,347		Short term investment in SBC loans fund.	1,823		6
		Total Current Assets		1,845	
	6,351	Total Net Assets		6,905	
		The Funds of the Charity			
(6,351)		Restricted income funds		(6,905)	7
	(6,351)	Total Charity Funds		(6,905)	

All income and expenditure transactions derive from continuing activities.

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

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Shona Haslam
Trustee
Scottish Borders Council Education Trust
26 September 2019

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 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 Investment Income

2017/18 £		2018/19 £
3	Bank Interest Receivable	8
379	Income from Investment Portfolio	545
382		553

2 Charitable Activities

The charity has provided a grant to one eligible beneficiary during the year to 31 March 2019.

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 Education Trust, recognised under Governance Costs. This fee amounted to £500 in 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

4 Investments

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

At 31 March 2019 all investments were with the Kames Capital Diversified Monthly Income Fund.

5 Debtors

2017/18 £		2018/19 £
0	Prepayments and accrued income	22
0		22

6 Short Term Investments in SBC Loans Fund

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

7 Restricted Income Funds

The funds held with the Charity are restricted by area, purpose or both. Income includes the unrealised gain on the Kames Capital plc investment during the year.

2017/18 Balance	Restricted by Area	Income	Expenditure	2018/19 Balance
£	£	£	£	£
1,833	Borders Wide	383	224	1,992
4,518	Peeblesshire	721	326	4,913
6,351		1,104	550	6,905

8 Related Party Transactions

Due to the nature of the operations and composition of the SBC Education Trust (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	8

INDEPENDENT AUDITOR'S REPORT

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

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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

Community Enhancement Trust

Charity Registration Number: SC044764

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	3
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	7
Financial Statements	
Statement of Financial Activities	8
Balance Sheet	9
Accounting Policies	10
Notes to the Financial Statements	12
Independent Auditor's Report	17
Additional Information	20

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 2019.

Structure

On 21 December 2017, Scottish Borders Council approved the delegation of authority 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 donations totalling £1,269 during the financial year to 31 March 2019.
- 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

- The fund will be promoted via Scottish Borders Council web site and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the 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:



- 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 2019, the reserves of the SBC Community Enhancement Trust amounted to:

- Restricted Income Funds - £193,397.

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	Scottish Borders Council 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 2019 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

Sandy Aitchison	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	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		

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
26 September 2019

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, 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 2019

2017/18 £		2018/19 £	Notes
	Income from:		
500	Donations and legacies	500	1
1,997	Investments	11,461	
0	Charitable activities	30	
2,497	Total Income	11,991	
	Expenditure on:		
(2,697)	Raising funds	(6)	2
0	Charitable activities	(1,269)	
(743)	Other : Governance Costs	(500)	3
(3,440)	Total Expenditure	(1,775)	
(229)	(Loss) / gain on investment assets	1,786	
	Net Income / (Expenditure)	12,002	
	Other Recognised Gains / (Losses)		
0	Recognition of Investments	109,007	4
(1,172)	Net Movement in Funds	121,009	
	Reconciliation of Funds		
73,560	Total funds brought forward	72,388	
72,388	Total Funds Carried Forward	193,397	8

BALANCE SHEET as at 31 March 2019

as at 31 March 2018			as at 31 March 2019		Notes
£	£		£	£	
70,594	70,594	Fixed Assets			
		Investments	177,521		5
				177,521	
0	1,794	Current Assets			
1,794		Debtors	751		6
		Short term investment in SBC loans fund	15,125		7
				15,876	
	72,388	Total Net Assets		193,397	
(72,388)		The Funds of the Charity			
		Restricted income funds	(193,397)		8
	(72,388)	Total Charity Funds		(193,397)	

All income and expenditure transactions derive from continuing activities.

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

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Shona Haslam
Trustee
Scottish Borders Council Community
Enhancement Trust
26 September 2019

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 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 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

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

2017/18 £		2018/19 £
13	Bank Interest Receivable	109
1,984	Income from Investment Portfolio	11,352
1,997		11,461

2 Charitable Activities

The charitable activities during 2018/19 are included in note 8 by individual fund within the charity.

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 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

4 Recognition of Investments

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

Fund	Restricted by Area	Restricted by Purpose	1 April 2018 Balance £
Alex Grieves Bequest (1)	Hawick Denholm & Hermitage	c	418
Alex Grieves Bequest (2)	Hawick Denholm & Hermitage	b	279
Ayton War Memorial Fund	Berwickshire	b	957
Coldstream War Memorial	Berwickshire	b	60
Longformacus Public Park	Berwickshire	c	251
Wm Brown's Bequest	Hawick Denholm & Hermitage	b	294
I Wallace Bequest	Earlston	b	595
Total Transferring			2,854

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

Fund	Restricted by Area	Restricted by Purpose	1 April 2018 Balance £
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

**Scottish Borders Council Community Enhancement Trust
Annual Report and Financial Statements For The Year To 31 March 2019**

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	169
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
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	230
Greenlaw Parish Acc	Berwickshire	c	83
Coldstream Assoc.Trusts Fund	Berwickshire	None	1,482
Flodden Memorial Fund	Berwickshire	b	2,651
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
Earlston Back Row Repair Fund	Earlston	None	38
Miss Isabella Wallace's Fund	Earlston	None	13,728
Earlston Mill Meadow	Earlston	None	2,876
Woods Bequest	Earlston	b	361
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

**Scottish Borders Council Community Enhancement Trust
Annual Report and Financial Statements For The Year To 31 March 2019**

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
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	32,275
Ormiston Trust (Meikle Clock)	Melrose	b	36
William Hill Trust No1	Melrose	b	205
Brewster bequest	Melrose	b	342
Fraser Bequest (2)	Melrose	b	92
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	3,116
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			106,153

5 Investments

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

At 31 March 2019 all investments were with the Kames Capital Diversified Monthly Income Fund.

6 Debtors

2017/18 £		2018/19 £
0	Prepayments and accrued income	751
0		751

7 Short Term Investments in SBC Loans Fund

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

8 Restricted Income Funds

The funds held with the Charity are restricted by area, purpose or both. Income includes the unrealised gain on the Kames Capital plc investment during the year and the funds received from Scottish Borders Council Charitable Trusts and non-registered trusts.

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

2017/18 Balance RESTATED £	Restricted by Area	Restricted by Purpose	Income £	Expenditure £	2018/19 Balance £
1,608	Cheviot	Allerley Well Park	103	4	1,707
1,503	Borders Wide	b	92	3	1,592
19,777	Hawick, Denholm & Hermitage	b	2,121	45	21,853
27,982	Mid & East Berwickshire	b	6,456	82	34,356
6,870	Hawick, Denholm & Hermitage	b&d	426	15	7,281
13,027	Berwickshire	Unrestricted	2,382	33	15,376
520	Berwickshire	Henderson Park & War Memorial	37	1	556
1,101	Selkirk	Unrestricted	1,662	1,189	1,574
0	Earlston	Unrestricted	17,674	37	17,637
0	Earlston	b	1,045	3	1,042
0	Galashiels & District	b	7,741	18	7,723
0	Hawick, Denholm & Hermitage	c	446	1	445
0	Hawick, Denholm & Hermitage	Unrestricted	21,729	52	21,677
0	Hawick Denholm	b	236	1	235
0	Hawick & Hermitage	b	420	1	419
0	Jedburgh & District	b	1,753	6	1,747
0	Kelso & District	b	862	2	860
0	Melrose	b	1,527	4	1,523
0	Selkirk & District	b	10,917	26	10,891
0	Selkirkshire	b	3,248	3	3,245
0	Tweeddale	b	6,504	8	6,496
0	Berwickshire	c	357	1	356
0	Lauder & District	b	35,046	240	34,806
72,388			122,784	1,775	193,397

9 Related Party Transactions

Due to the nature of the operations and composition of the SBC Community Enhancement Trust (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	109

INDEPENDENT AUDITOR'S REPORT

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

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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

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

This page is intentionally left blank

Scottish Borders Council

Ormiston Trust for Institute

Charity Registration Number: SC019162

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	3
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	7
Financial Statements	
Statement of Financial Activities	8
Balance Sheet	9
Accounting Policies	10
Notes to the Financial Statements	12
Independent Auditor's Report	14
Additional Information	17

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 2019.

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 2018/19 have been fully utilised during the year. The funds are expended on behalf of the Charity by Live Borders who manages the 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 2019, the reserves of the Ormiston Trust for Institute amounted to:

- Restricted Income Funds - £244,717

Investments

Per the Council's 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	Scottish Borders Council Ormiston Trust for Institute
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 2019 were the duly elected members of the Leaderdale and Melrose ward of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

David Parker

Tom Miers

Kevin Drum

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
26 September 2019

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 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 2019

2017/18 £		2018/19 £	Notes
	Income from:		
500	Donations and legacies	500	4
273	Investments	545	1
773	Total Income	1,045	
	Expenditure on:		
(25,863)	Raising funds	(25,500)	2
(123)	Charitable activities	(545)	3
(533)	Other : Governance costs	(500)	4
(26,519)	Total Expenditure	(26,545)	
(32)	(Loss)/Gains on investment assets	98	
(25,778)	Net Movement in Funds	(25,402)	
	Reconciliation of Funds		
295,897	Total funds brought forward	270,119	
270,119	Total Funds Carried Forward	244,717	10

BALANCE SHEET as at 31 March 2019

as at 31 March 2018			as at 31 March 2019		Notes
£	£		£	£	
		Fixed Assets			
260,000		Tangible assets	234,500		5
9,697		Investments	9,806		6
	269,697			244,306	
		Current Assets			
0		Debtors	41		7
508		Short term investment in SBC loans fund.	582		8
	508	Total Current Assets		623	
		Current Liabilities			
		Creditors:			
	(86)	Amounts falling due within 1 year		(212)	9
	422	Net Current Assets		411	
	270,119	Total Net Assets		244,717	
		The Funds of the Charity			
(270,119)		Restricted income funds	(244,717)		10
	(270,119)	Total Charity Funds		(244,717)	

All income and expenditure transactions derive from continuing activities.

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 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

David Parker
Trustee
Scottish Borders Council Ormiston Trust for Institute
26 September 2019

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 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 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

2017/18		2018/19	
£		£	
1	Bank Interest Receivable	4	
272	Income from Investment Portfolio	541	
273		545	

2 Expenditure on Raising Funds

Expenditure on Raising Funds includes a depreciation charge for the use of the asset and is funded from the Restricted Funds. This is not a cash transaction.

3 Charitable Activities during 2018/19

A single grant is made to Live Borders to maintain the property and provide the services required under the Charity terms.

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 Ormiston Institute, recognised under Governance Costs. This fee amounted to £500 in 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

5 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 2018/19 as follows:

	£
Opening Balance at 1 April 2018	260,000
Depreciation for year	25,500
Closing Balance at 31 March 2019	234,500

6 Investments

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

At 31 March 2019 all investments were with the Kames Capital Diversified Monthly Income Fund.

7 Debtors

2017/18 £		2018/19 £
0	Prepayments and accrued income	41
0		41

8 Short term investment in SBC Loans Fund

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

9 Creditors: amounts falling due within 1 year

2017/18 £		2018/19 £
86	Grants payable	212
86		212

10 Restricted income funds

Income includes the unrealised gain on the Kames investment during the year.

2017/18 Balance £	Trust Fund £	Income £	Expenditure £	2018/19 Balance £
264,151	Ormiston Trust Institute	444	25,906	238,689
5,968	Greenyards Trust	699	639	6,028
270,119		1,143	26,545	244,717

11 Related Party Transactions

Due to the nature of the operations and composition of the SBC Ormiston Trust for Institute (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	4

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Ormiston Trust for Institute and the Accounts Commission

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 the year ended 31 March 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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
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

Charitable Trusts

Charity Registration Number: SC043896

annual report and financial statements

for the year to 31 March 2019



Contents

	Page
Foreword	3
Trustees' Annual Report	3
Statement of Trustees' Responsibilities for the Annual Report and Financial Statements	7
Financial Statements	
Statement of Financial Activities	8
Balance Sheet	9
Accounting Policies	10
Notes to the Financial Statements	12
Independent Auditor's Report	16
Additional Information	19

FOREWORD

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

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

Work commenced in 2014/15 to re-organise a number of the other registered Charities managed by Scottish Borders Council into three new Charities covering Welfare, Community Enhancement and Education. Following public consultation meetings and discussion with OSCR during 2017 a report was presented to Scottish Borders Council on 21 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; following receipt of this approval from OSCR, the transfer took place on 1 April 2018 leaving 32 various funds remaining within this Charity. A further report will be submitted to Scottish Borders Council for the remaining Funds during 2019/20.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and Financial Statements for the year ended 31 March 2019.

Structure

Following the transfer on 1 April 2018 of 7 funds to the Scottish Borders Council Community Enhancement Trust and 37 funds to the Scottish Borders Council Welfare Trust, the Charity currently comprises 32 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 2019 totalling £21,659 including contributions through area based Education Trusts for Further Education including overseas study and travel as well as music and dance expenses. This expenditure is included within the Charitable activities figure of £386,125 in the Statement of Financial Activities, which is detailed further in Notes 2 and 8 to the Financial Statements.

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 was given by OSCR and resulted in a number of funds transferring their full reserve balances from the SBC Charitable Trusts from 1 April 2018. The remaining 32 funds continue to be reviewed in conjunction with all stakeholders, including OSCR.

Governance and Management

Type of Governing Documents

- a) Since this Charity was originally formed as a holding charity for some 76 individual funds there is no overall governance document. 44 of these funds have now been successfully amalgamated into other SBC Trusts. An ongoing review is being undertaken into each of the remaining 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 21 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 2019, the reserves of the SBC Charitable Trust Funds amounted to:

- Restricted Income Funds - £254,915

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	Scottish Borders Council 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 2019 were the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994, at that time. These were:

Sandy Aitchison	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	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		

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
26 September 2019

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, 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 2019

2017/18 £		2018/19 £	Notes
	Income from:		
683	Donations and legacies	500	3
35,361	Investments	26,793	1
36,044	Total Income	27,293	
	Expenditure on:		
(15,897)	Charitable activities	(386,125)	2
(20,379)	Raising funds	0	
(2,316)	Other : Governance Costs	(500)	3
(38,592)	Total Expenditure	(386,625)	
(1,716)	(Loss) / gain on investment assets	2,045	
(4,264)	Net Movement in Funds	(357,287)	
	Reconciliation of Funds		
616,466	Total funds brought forward	612,202	
612,202	Total Funds Carried Forward	254,915	8

BALANCE SHEET as at 31 March 2019

as at 31 March 2018			as at 31 March 2019		Notes
£	£		£	£	
530,598		Fixed Assets			
		Investments	202,673		4
	530,598			202,673	
		Current Assets			
2,764		Debtors	858		5
84,214		Short term Investment in SBC loans fund	51,384		6
	86,978	Total Current Assets		52,242	
		Current Liabilities			
		Creditors:			
	(5,374)	Amounts falling due within 1 year		0	7
	81,604	Net Current Assets		52,242	
	612,202	Total Net Assets		254,915	
		The Funds of the Charity			
(612,202)		Restricted income funds	(254,915)		8
	(612,202)	Total Charity Funds		(254,915)	

All income and expenditure transactions derive from continuing activities.

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

The unaudited accounts were issued on 25 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

Shona Haslam
Trustee
Scottish Borders Council Charitable Trusts
26 September 2019

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 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 Investment Income

2017/18 £		2018/19 £
292	Bank Interest Receivable	291
35,069	Income from Investment Portfolio	26,502
35,361		26,793

2 Charitable Activities

The charitable activities during 2018/19 are included in note 8 by individual fund within the charity. Included within charitable activities is the transfer of restricted funds for those Trusts amalgamating into either the SBC Community Enhancement Trust or the SBC Welfare Trust, with transfer values listed in the table below.

Fund	Transferred to	1 April 2018 Balance £
Alex Grieves Bequest (1)	SBC Community Enhancement (SC044764)	418
Alex Grieves Bequest (2)	SBC Community Enhancement (SC044764)	279
Ayton War Memorial Fund	SBC Community Enhancement (SC044764)	957
Brown Bequest	SBC Welfare Trust (SC044765)	419
Clive Craig-Brown Bequest	SBC Welfare Trust (SC044765)	16,371
Coldstream War Memorial	SBC Community Enhancement (SC044764)	60
Dalrymple's Mortification	SBC Welfare Trust (SC044765)	1,567
Dunlop Bequest	SBC Welfare Trust (SC044765)	103,812
Edgar Bequest	SBC Welfare Trust (SC044765)	1,801
Elliot Mortification	SBC Welfare Trust (SC044765)	3,126
Ewan Trust	SBC Welfare Trust (SC044765)	3,178
Ex Provost Mercer's Bequest No1	SBC Welfare Trust (SC044765)	1,029
Ex Provost Mrs Laidlaw's Benefaction	SBC Welfare Trust (SC044765)	200
Ferguson Dalwhinny Fund	SBC Welfare Trust (SC044765)	16,915
G D Gibson's Bequest	SBC Welfare Trust (SC044765)	2,336
George D Gibson's Bequest	SBC Welfare Trust (SC044765)	10,210
Henry Laidlaw Trust	SBC Welfare Trust (SC044765)	1,806
I Wallace Bequest	SBC Community Enhancement (SC044764)	595
James West Brown's Bequest	SBC Welfare Trust (SC044765)	80
Jedburgh Coal Fund	SBC Welfare Trust (SC044765)	11,396
John Herbetson Bequest	SBC Welfare Trust (SC044765)	1,473
John Hunter's Bequest	SBC Welfare Trust (SC044765)	230
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)	26
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)	22,254
Mrs Adams Bequest	SBC Welfare Trust (SC044765)	418
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)	6,401
T J S Roberts Trust	SBC Welfare Trust (SC044765)	12,137
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)	455
Wm Brown's Bequest	SBC Community Enhancement (SC044764)	294

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 Charitable Trust, recognised under Governance Costs. This fee amounted to £500 in 2018/19. A notional grant from SBC to cover the full cost is recognised under Donations and legacies. No Trustee remuneration or other expenses were incurred.

4 Investments

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

At 31 March 2019 all investments were with the Kames Capital Investment Diversified Monthly Income Fund.

5 Debtors

2017/18		2018/19
£		£
2,764	Prepayments and accrued income	858
2,764		858

6 Short Term Investments in SBC Loans Fund

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

7 Creditors: amounts falling due within 1 year

2017/18		2018/19
£		£
5,374	Grants payable	0
5,374		0

8 Restricted Funds

Income includes the unrealised gain on the Kames Capital plc investment during the year.

2017/18 Balance RESTATE £	Fund	Income £	Expenditure £	2018/19 Balance £
418	Alex Grieves Bequest (1)	0	418	0
279	Alex Grieves Bequest (2)	0	279	0
870	Andrew, Agnes & John Kyle	116	52	934
957	Ayton War Memorial Fund	0	957	0
7,234	Berwickshire Educational Trust	947	120	8,061
419	Brown Bequest	0	419	0
334	C W Dunnet Award	39	21	352
834	Campbell Calderhead Prize	80	1	913
16,371	Clive Craig-Brown Bequest	0	16,371	0
3,128	Col. Jem Richard Prize Fund	288	5	3,411
987	Coldstream Guards Prize	121	89	1,019
60	Coldstream War Memorial	0	60	0
1,567	Dalrymple's Mortification	0	1,567	0
1,458	Dr Milne Memorial Fund	131	2	1,587
103,812	Dunlop Bequest	0	103,812	0
1,801	Edgar Bequest	0	1,801	0
3,126	Elliot Mortification	0	3,126	0
3,178	Ewan Trust	0	3,178	0
1,029	Ex Provost Mercer's Bequest No1	0	1,029	0
200	Ex Provost Mrs Laidlaw's Benifaction	0	200	0
5,050	F W Dobson VC	573	418	5,205
16,915	Ferguson D Dunwhinny Fund	0	16,915	0
2,336	G D Gibson's Bequest	0	2,336	0
18,186	Geoffrey Simpson Bequest	2,465	42	20,609
10,210	George D Gibson's Bequest	0	10,210	0
598	Hans D Langmack Prize Fund	67	48	617
1,806	Henry Laidlaw Trust	0	1,806	0
595	I Wallace Bequest	0	595	0
25,216	J A S Henderson Memorial Scholarship	965	16	26,165
3,001	J Purves Bequest	308	403	2,906
1,082	James Robertson Trust	104	2	1,184
80	James West Brown's Bequest	0	80	0
1,416	Jane Grieve Endowment	133	2	1,547
1,848	Jean Kincaird Grieve Endowment	167	2	2,013
11,396	Jedburgh Coal Fund	0	11,396	0
1,513	Jedburgh Public Library Fund	92	2	1,603
1,473	John Herbertson Bequest	0	1,473	0
230	John Hunter's Bequest	0	230	0
677	John Jamieson Prize Fund	60	1	736
92	John Murray's Bequest	0	92	0
347	Joshua Goodfellow's Bequest	0	347	0
616	Kelso Library Book Fund	38	1	653

Scottish Borders Council Charitable Trusts
Annual Report and Financial Statements For The Year To 31 March 2019

644	Kennedy Medal Fund	61	1	704
1,655	Kenneth Cochrane Library Fund	101	1	1,755
26	Lands at Calfward	0	26	0
251	Longformacus Public Park	0	251	0
3,921	Marjoribanks Bequest	0	3,921	0
869	Mary Dickson Prize Fund	96	2	963
550	McKinley Trust	0	550	0
22,254	Miss A T Waldie Trust	0	22,254	0
850	Mr & Mrs W F Johnstone Fund	72	1	921
418	Mrs Adams Bequest	0	418	0
997	Mrs Clelland Memorial Prize	90	2	1,085
2,793	Mrs Hobkirk's Fund	0	2,793	0
169	Mrs M Cheetham Bequest	0	169	0
3,057	Murray Medal Fund	328	5	3,380
258	Peebles Public Library	17	1	274
22,273	Peeblesshire Educational Trust	3,445	2,484	23,234
25,279	R D Forman's Bequest	0	25,279	0
4,708	Raith's Mortification	0	4,708	0
1,201	Robert Meggit's Bequest	0	1,201	0
51,016	Robert Watson Fund	0	51,016	0
103,249	Roxburghshire Educational Trust	15,126	6,363	112,012
3,547	Selkirk Library Fund	216	4	3,759
12,325	Selkirkshire Educational Trust	1,884	2,507	11,702
27,091	Simpson D Dunwhinny Fund	0	27,091	0
6,401	Sir John Robert's Bequest	0	6,401	0
21,345	Sir Walter Leitch Scholarship	949	9,451	12,843
1,302	Special Air Service Reg. Fund	144	105	1,341
12,137	T J S Roberts Trust	0	12,137	0
2,341	Thomas B Williamson Bequest	0	2,341	0
1,314	Walter Geddes Prize Fund	115	2	1,427
1,050	Waugh Bequest	0	1,050	0
23,417	William Forrester's Bequest	0	23,417	0
455	William Laidlaw Memorial Fund	0	455	0
294	Wm Brown's Bequest	0	294	0
612,202		29,338	386,625	254,915

9 Related Party Transactions

Due to the nature of the operations and composition of the SBC Charitable Trusts (Trustees are comprised of Elected Council Members of Scottish Borders Council), Scottish Borders Council is registered as a related party. Transactions with Scottish Borders Council for the year under review are listed below:

	£
Interest received on funds invested in SBC Loans Fund	291

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission

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 2019 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 2019 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 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 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.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

September 2019

Asif A Haseeb OBE 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

annual report and financial statements

Bridge Homes LLP

for the year to 31 March 2019

Contents

	Page
Members' Annual Report	2
Statement of Members' Responsibilities for the Members' Report and Financial Statements	5
Financial Statements	
Profit and Loss Account	6
Balance Sheet	7
Cash Flow Statement	8
Statement of Changes in Equity	9
Accounting Policies	10
Notes to the Accounts	12
Independent Auditor's Report to the Members of Bridge Homes LLP	15
Contact Information	18

MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2019.

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.

Members` Annual Report (continued)

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 allocations 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 subject to a maximum amount of £600,000.

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

Bridge Homes was legally established in 2014/15 as a Limited Liability Partnership between Scottish Borders Council and Scottish Futures Trust in order to provide additional affordable housing for mid-

Members` Annual Report (continued)

market rent via the National Housing Trust / Local Authority Variant initiative. By 31 March 2018 Bridge Homes owned 45 homes at Castle View Ayton, Queen Elizabeth Drive Galashiels, Standalane Way Peebles, Croft Field Court Denholm, Henderson`s Court Kelso, and Waverley Road Innerleithen.

During 2018/19 Bridge Homes acquired an additional 4 flats at Hydro Gardens Peebles and 5 houses at Washington Avenue Kelso. Therefore by year end 31 March 2019 Bridge Homes owned 54 affordable homes across Scottish Borders. These final 9 acquisitions effectively brought an end to the development or acquisition phase of Bridge Homes activity. The 31 March 2019 was also the extended initiative deadline for completed homes delivery agreed between the Council and Scottish Government. In August 2018, Bridge Homes agreed to extend the existing 3 year Managing Agent contract by a further 2 years on the same terms and conditions. This was done on the basis of option conditions set out within the original contract.

Existing response repairs reporting to the Managing Agent and repairs delivery by Borders Property Maintenance, and Key Performance Indicator reporting arrangements continue.

The National Housing Trust / Local Authority Variant model is predicated on the disposal of Bridge Homes properties sometime between their fifth and tenth year anniversaries in order to repay the loan capital to the Council. It is intended that Council Officers will bring forward a report to The Council`s Executive Committee outlining a potential disposal strategy in autumn 2019.

This report was signed on behalf of the Members by

David Robertson CPFA
Designated Member
Scottish Borders Council
26 September 2019

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 2019

2017/18		2018/19	Notes
£		£	
222,549	Turnover	239,485	1
(47,943)	Cost of Sales	(46,601)	2
174,606	Gross Profit	192,884	
(24,935)	Administrative Expenses	(98,749)	3
(13,686)	Revaluations	(58,686)	5
135,985	Operating Profit	35,449	
(90,733)	Interest Payable & Similar Expenses	(100,639)	4
45,252	Profit /(Loss) For The Financial Year Available For Discretionary Division Among Members	(65,190)	
315,486	Other Comprehensive Income Revaluation Gain/(Loss) on Property	(11,314)	5
360,738	Total Comprehensive Income/(Loss)	(76,504)	

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

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

BALANCE SHEET as at 31 March 2019

2017/2018		2018/2019		Notes
£		£	£	
6,165,609	Fixed Assets Property, Plant and Equipment		7,242,889	5
	Current Assets			
114,185	Debtors	14,512		6
124,413	Cash at Bank	213,448		
238,598		227,960		
	Creditors			
(73,898)	Amounts falling due within 1 year	(70,665)		7
164,700	Net Current Assets		157,295	
6,330,309	Net Assets attributable to Members		7,400,184	
	Represented By:			
4,600,602	Loans and Other Debts due to Members		5,611,982	8
	Members' Other Interests			
759,002	Capital Account	894,002		9
55,955	Profit and Loss Reserve	(9,236)		
914,750	Revaluation Reserve	903,436		
6,330,309	Total Members' Interests		7,400,184	

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 September 2019 and are signed on their behalf by:

David Robertson CPFA
Designated Member
Scottish Borders Council
26 September 2019

Company Registered Number: SO304775

CASH FLOW STATEMENT for the year ended 31 March 2019

2017/18 £		2018/19 £
	Reconciliation of Profit to Net Cash Flow from Operating Activities	
45,252	Profit/(Loss) for the Financial Year	(65,190)
104,421	Adjustments to Profit for Non Cash Movements	159,325
(20,772)	(Increase)/Decrease in Debtors	99,673
55,918	Increase/(Decrease) in Creditors due within 1 year	(3,233)
184,819	Net Cash Inflow from Operating Activities	190,575

2017/18 £		2018/19 £
184,819	Cash Flow Statement	
	Net Cash Inflow from Operating Activities	190,575
	Investing Activities	
0	Purchase of PPE	(1,147,281)
0	Net Cash Inflow/(Outflow) from Investing Activities	(1,147,281)
	Financing Activities	
0	Capital Received	135,000
0	Cash received from loans and other borrowing	1,011,380
(90,733)	Interest Payable	(100,639)
(90,733)	Net Cash Inflow/(Outflow) from Financing Activities	1,045,741
94,086	Movement in Cash in Period	89,035

STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2019

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Revaluation Reserve £	Loans & Other Debts Due To Members £	Total £
Balance at 1 April 2018	759,002	55,955	914,750	4,600,602	6,330,309
Profit For The Year Available for Discretionary Division Among Members	0	(65,190)	0	0	(65,190)
Loan Funding Provided By Members	0	0	0	1,011,380	1,011,380
Revaluations	0	0	(11,314)	0	(11,314)
Capital Introduced By Members	135,000	0	0	0	135,000
Balance at 31 March 2019	894,002	(9,235)	903,436	5,611,982	7,400,184

	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

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

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).

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 2. Bridge Homes is 99.999% owned by Scottish Borders 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. As at 31 March 2019 £5.612m has been drawn down. This is due to be repaid within five years from the date the last property was purchased. As such, the Members consider 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.

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 2019 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

2017/18 £		2018/19 £
213,138	Rental Income	230,074
9,411	Revenue Grant	9,411
222,549		239,485

2 Cost of Sales

2017/18 £		2018/19 £
40,636	Management Charges	44,022
5,659	Insurance	2,030
495	Landlord Registration	89
1,153	Utilities	460
47,943		46,601

3 Administrative Expenses

2017/18 £		2018/19 £
12,490	Accountancy and Legal	6,249
3000	Professional Fees	600
5,430	Audit	7,900
4,015	Estates and Housing	0
0	Provision for Bad Debt	84,000
24,935		98,749

4 Interest Payable & Similar Charges

2017/18 £		2018/19 £
40	Bank Charges	76
90,693	Interest Payable to Member (refer to note 10.)	100,563
90,733		100,639

5 Land and Buildings

2017/18 £		2018/19 £
5,863,809	NBV at 31 March 2018	6,165,609
0	Additions at Cost	1,147,280
(13,686)	Revaluation Losses charged to the Profit & Loss Account	(58,686)
315,486	Revaluation Losses charges to the Revaluation Reserve	(11,314)
6,165,609	NBV at 31 March 2019	7,242,889

The historic cost of Land & Buildings as at 31st March 2019 is £6.361m (2017/18 £5.250m).

6 Debtors

2017/18 £		2018/19 £
20,772	Unpaid Rental Income	5,059
9,411	Grant for Central Support Costs	9,411
84,002	Other Debtors	42
114,185		14,512

7 Creditors: Amounts Falling Due Within One Year

2017/18 £		2018/19 £
0	Rent Prepayment	515
1,620	Management Charges	395
3,000	Professional Fees	0
4,500	Audit	7,000
2,349	Accountancy	2,349
13,044	Legal Fees	3,046
4,163	Miscellaneous	4,015
45,222	Interest Payable to Member (refer to note 10)	53,345
73,898		70,665

8 Loans & Other Debts Due To Members

2017/18 £		2018/19 £
4,600,602	Loan from Member (refer to note 10)	5,611,982

9 Members' Capital

2017/18 £		2018/19 £
1	Initial Capital - Scottish Borders Council	1
1	Initial Capital – Scottish Futures Trust Investments Ltd	1
759,000	Capital Grant - Scottish Borders Council	894,000
759,002		894,002

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 2019
	£	£
Loan advanced	1,011,380	(5,611,982)
Revenue Grant	9,411	9,411
Service Charge	(9,411)	(9,411)
Loan Interest	100,563	(53,345)

11 Taxation

Taxation on all partnership profits is solely the liability of the individual members. Consequently, neither taxation nor related deferred taxation arising in the LLP are accounted for in these financial statements.

12 Ultimate Controlling Party

The Bridge Homes is controlled by the Designated Members as detailed on page 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

Opinion

We have audited the financial statements of Bridge Homes LLP ("the LLP") for the year ended 31 March 2019 which comprise the Profit and Loss Account, 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 2019 and of its loss 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the LLP's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the LLP's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a LLP and this is particularly the case in relation to Brexit.

Going concern

The members have prepared the financial statements on the going concern basis as they do not intend to liquidate the LLP or to cease its operations, and as they have concluded that the LLP's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the members' conclusions, we considered the inherent risks to the LLP's business model, including the impact of Brexit, and analysed how those risks might affect the

LLP's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the LLP will continue in operation.

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 2019

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

Scottish Borders Supports LLP

Registered number SO305176

Members' Annual Report and Financial Statements

For the year ended 31 March 2019



SBCARES

in safe hands

day services home care care homes independent living



Contents

	Page
Members' Annual Report	4
Statement of Members' Responsibilities for Members Report and Financial Statements	16
Financial Statements	
Profit and Loss Account	17
Balance Sheet	18
Statement Of Changes in Net Assets Attributable to Members	19
Accounting Policies	20
Notes to the Accounts	25
Independent Auditor's Report to the Members of Scottish Borders Supports LLP	30
Reference and Administrative Information	33

Members' Annual Report

The Members present their Annual Report and Financial Statements for the year ended 31 March 2019.

Principal Activity

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

Scottish Borders Supports employs **12** staff (**11** full time equivalents) in **12** positions.

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 ("SB Cares") 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) Chief Operating Officer
- 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)*

2018/19 Financial Review – Scottish Borders Supports LLP

Overall the two LLP's were able to provide Scottish Borders Council an efficiency contribution rebate of **£206k** on the contract to provide adult social care services for the year ending 31 March 2019. Additional Funding notified for the Community Equipment Store totalling £250k was not received in full and has not been resolved for the 2018-19 close, £125k was not received. Had the funding been received in full for the Community Equipment Store a contribution rate of £331k would have been returned prior to any pension adjustments.

The total amount of the cumulative contribution returned since inception totals **£3.656m** a **7%** return rate on grant funding.

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.

These financial statements represent the results of the year of trading from 1 April 2018 until 31 March 2019. In the year ended 31 March 2019, Scottish Borders Supports LLP generated a deficit of £251k on a management accounts basis.

	Year Ending 31 March	
	2018 £000	2019 £000
Total Comprehensive Income/(Loss) for the year	44	(251)
<i>Remove Accounting Standard Adjustments:</i>		
Movement in Annual Leave Accrual	1	4
Income/(Loss) for the year on a Management Accounts Basis	45	(247)

The LLP was able to provide Scottish Borders Council an efficiency contribution rebate of £206k on the contract to provide adult social care services for the year ending 31 March 2019. 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 a net liability position of £227k at the end of the 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 LLP's 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:

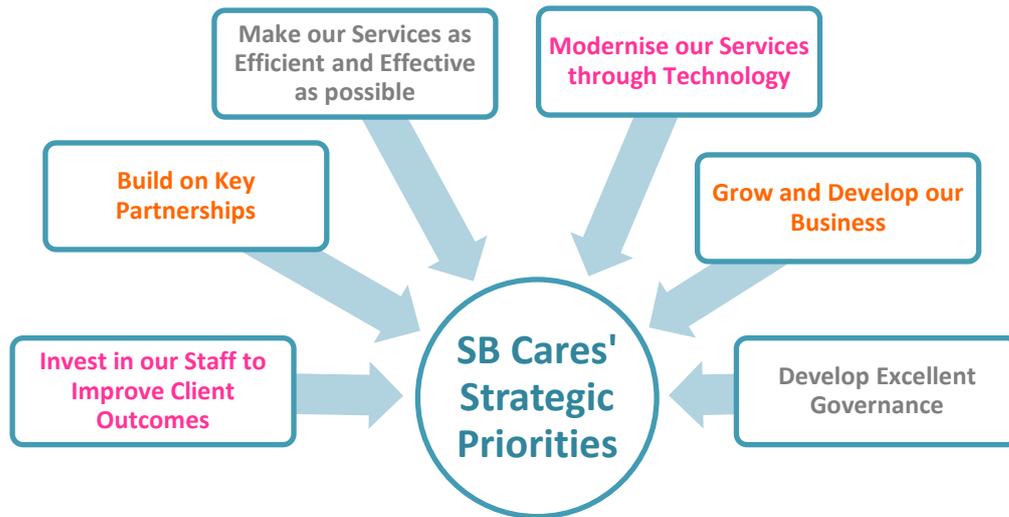


SB Cares will focus on three **Strategic Aims** in order to support the delivery of this Vision and these are:

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

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

Members' Annual Report *(continued)*



2018/19 – 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 2018/19

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 **12,226 pieces** of additional ability equipment to support **2,399 new clients** to live more independently, with a total of **9,516 clients** using equipment on loan from the Community Equipment Service at the end of the financial year.
- Supporting **1,876 clients** to maintain independence with 24 hour monitored personal alarms.
- Providing 24 hour support through **127 long stay / respite beds** in a care home environment for those people with higher level needs.
- Providing 24 hour support through **39 Transitional and Discharge to Assess beds** to deliver improved patient care journeys.
- Supporting **181** clients through our older people and learning disability day services enabling people to remain at home and providing respite to families and carers.

Members' Annual Report *(continued)*

Delivering Our Strategic Priorities during 2018/19

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

SB Cares has:

- a. implemented a robust classroom and work shadowing induction programme including familiarisation visits in order to continue to improve quality of care to clients; and
- b. developed support and monitoring frameworks for new and acting managers to provide tools and knowledge; and
- c. rolled out a management training programme for service line managers; and
- d. implemented new staffing models within Care at Home to support improving quality of care, and effectiveness of scheduling visits; and
- e. agreed and implemented the new rota system with Care at Home to provide consistency of care across a 24/7 service improving staff work life balance and quality of outcomes for clients.

✓ **Build on Key Partnerships**

SB Cares has:

- a. successfully implemented a collaborative approach to delivery of the Alarms Monitoring Service in conjunction with East Lothian Council through a successful tri-party agreement; and
- b. worked collaboratively with Scottish Borders Council to provide an outcome focused older people day service in pilot areas, this has been done under the Integrated Joint Board for Health and Social Care in partnership with NHS Borders; and
- c. worked with Borders College to secure delivery of SVQ social care courses.

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

SB Cares has:

- a. successfully continued to implement further roll out of a dedicated vehicle fleet including electric vehicles 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;
- b. fully implemented the new rota across Homecare which provides a consistent, more responsive and flexible 7 day service;
- c. 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, enabling the provision of cost effective services in 2018-19, the delivery of increased service resilience and improved overall caller experience; and
- d. worked collaboratively with Human Resources within Scottish Borders Council to implement a project with regard to sickness absence delivering a reduction in the level of absence.

Members' Annual Report *(continued)*

✓ **Modernise our Services through Technology**

SB Cares has:

- a. developed and implemented a programme of technology training sessions predominantly aimed at Scottish Borders Council Social Work Services resulting in an increase in technology referrals; and
- b. commenced a pilot within Homecare to trial "Armed" a technology system based solution focussed on falls prevention.

✓ **Grow and Develop our Business**

SB Cares has:

- a. earned our first grade 6 awarded from the Care Inspectorate within St Ronan's Care Homes and subsequently nominated for a National Care Award; and
- b. engaged with Meridian, a consultancy firm specialising in health care productivity, through the Integrated Joint Board to look at opportunities within services to develop productivity outcomes.

✓ **Develop Excellent Governance**

SB Cares has:

- a. engaged effectively with the IJB, 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 based on the National Care Standards, and on relevant regulations. The new quality framework distilled these standards into quality statements which fell into four categories, Quality of Care, Quality of Environment, Quality of Staff and Quality of Management. Each quality statement inspected is graded as follows:

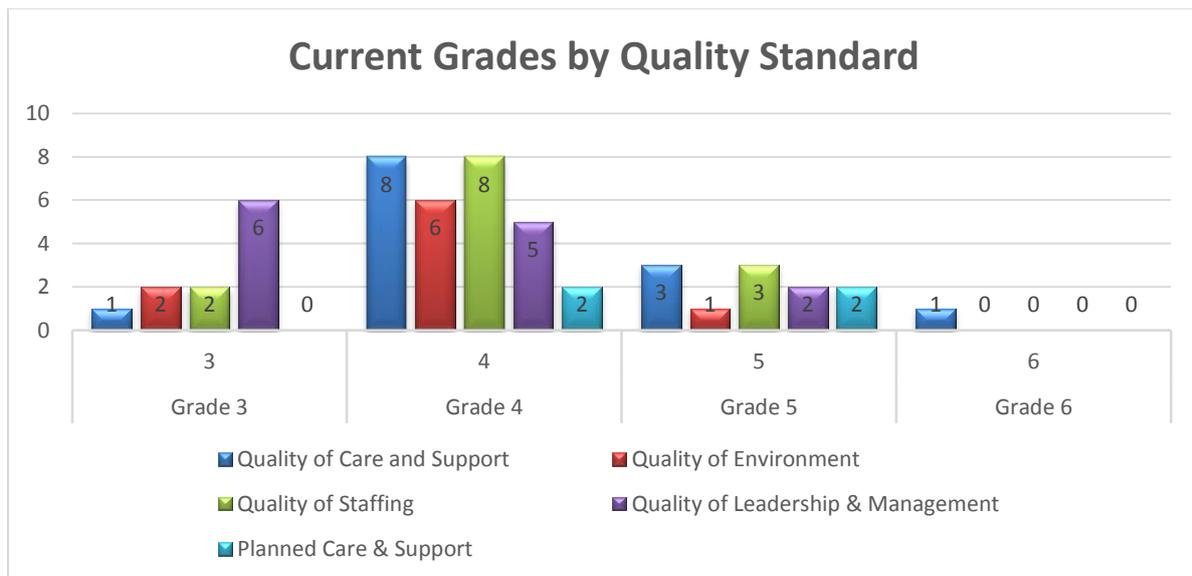
- Grade 6 – Excellent
- Grade 5 – Very good
- Grade 4 – Good
- Grade 3 – Adequate
- Grade 2 – Weak
- Grade 1 – Unsatisfactory

The grades are then aggregated for each of the four categories, so that published inspection reports give four grades for the service.

Due to the new quality standards and grading a direct comparison to prior gradings is not practical. Graph 1 below highlights current grades by themes.

SB cares was also awarded its first **grade 6** in 2018-19.

GRAPH 1



Members' Annual Report *(continued)*

Previously Care Inspectorate grading was not themed and one grade was received at each inspection report for each registration. This cannot be compared directly with the themed approach to grading and the following table details the grades received previously for reference purposes.

Grade	%
Grade 3	45%
Grade 4	44%
Grade 5	11%

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 – 2018/19

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 2019		
	SB Supports LLP	SB Cares LLP	Total SB Cares
	£000	£000	£000
Total Comprehensive Income/(Loss) for the year	(251)	(2,851)	(3,102)
<i>International Accounting Standard Adjustments:</i>			
IAS 19 Retirement Benefits Adjustments	-	3,308	3,308
Annual Leave	4	77	
Adjusted Management Accounting Surplus	(247)	-	
SBC Service Efficiency Contract Rebate	-	206	206
Income/(Loss) for the year on a Management Accounts Basis	(251)	251	-

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 **£206k** on top of previously achieved reductions in the contract.

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

Members' Annual Report *(continued)*

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Recurring Savings returned to SBC:				
2015/16	480	480	480	480
2017/18	-	-	465	465
2018/19	-	-	-	206
Total Recurring Savings	480	480	945	1,151
One-Off Savings returned to SBC - 2016/17	-	600	-	-
Annual Savings	480	1,080	945	1,151
% of Contractual Management Fee	3%	7%	6%	7%
Cumulative Savings	480	1,560	2,505	3,656

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

- ✓ Contract out of delivery of Alarms systems monitoring with East Lothian Council
- ✓ Continuation of fleet optimisation activity especially in Home Care
- ✓ Reduction in absence

In conclusion the Members Report and Financial Statements for the year ended 31 March 2019, 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

Xth September 2019

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 2019

2018		2019	Notes to Accounts Ref
£000		£000	
18,272	Turnover	18,590	1
(17,221)	Cost of Sales	(18,321)	3
1,051	Gross Profit	269	
(1,012)	Administrative Expenses	(526)	4
39	Profit / (Loss) on Ordinary Activities after Taxation	(257)	
5	Interest Receivable and Similar Income	6	5
44	Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	(251)	
-	Other Comprehensive Income	-	
44	Total Comprehensive Income/(Loss) for the year	(251)	

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

Balance Sheet

at 31 March 2019

2018		2019	Notes to Accounts Ref.
£000		£000	
849	Fixed Assets	825	7
	Current Assets		
87	Stock	149	8
669	Debtors	1,370	9
2,038	Cash at Bank and in Hand	1,356	
2,794		2,875	
	Creditors		
(3,619)	Amounts falling due within 1 year	(3,927)	10
(825)	Net Current Liabilities	(1,052)	
24	Net Assets / (Liabilities) attributable to Members	(227)	
	Represented by:		
	Members' Other Interests:		
-	Members Capital Account	-	
24	Profit and Loss Reserve	(227)	
24	Total Members' Interests	(227)	

The Accounting Policies on pages 20 to 24 and the Notes to the Accounts on pages 25 to 29 form an integral part of these Financial Statements. These financial statements were approved by the Members and authorised for issue on Xth September 2019 and were signed on its behalf by:

Philip Barr

For and on behalf of

Scottish Borders Council

Designated member

Xth September 2019

Company registered number: **SO305176**

Statement of Changes in Net Assets Attributable to Members

For the year ended 31 March 2019

	Members Capital Account £000	Profit & Loss Reserve £000	Total Members Interests £000
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
Balance at 1 April 2018	-	24	24
Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	-	(251)	(251)
Balance at 31 March 2019	-	(227)	(227)

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) Changes in accounting policies in 2019

The LLP has applied IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" with effect from 1 April 2018. Due to the transition methods chosen by the LLP in applying the two standards, comparative information throughout these financial statements has not been restated.

The impact of applying applied IFRS 15 "Revenue from Contracts with Customers" is set out in the income recognition accounting policy note (ix) and the impact of applying IFRS 9 "Financial Instruments" is set out in the financial assets accounting policy note (viii)

IFRS 15 introduces a 5 step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking expected credit loss model for impairment rather than the previous incurred loss model.

Accounting policies *(continued)*

Both of these changes have been considered as part of the preparation of the LLP's accounts for 2019 and neither are considered to have had a material impact on the financial statements.

(iii) 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. Notwithstanding net current liabilities of £227,000 as at 31 March 2019 and a loss for the year then ended of £251,000 the financial statements have been prepared on a going concern basis which the Members consider to be appropriate for the following reasons.

The Members have prepared cashflow forecasts for a period of 18 months from the date of the approval of these financial statements which indicate that, taking account of reasonably possible downsides, the LLP will have sufficient funds, through continuing funding from Scottish Borders Council, to meet its liabilities as they fall due for that period.

The cash flow forecasts take into account the fact that the LLP has a service provision agreement in place with Scottish Borders Council until March 2020, which the Members expect to be renewed and will continue to provide the existing or an increased level of funding over a period of three to five years. Scottish Borders Council, together with the Borders' Integration Joint Board, are currently undertaking a strategic review of its arrangements for the provision of Adult Social Care Services in line with the recommendations of the Audit Scotland's 2018 report "Council's Use of Arms-length Organisations", which will review all council services.

Scottish Borders Council and Borders' Integration Joint Board have indicated their intention to continue to fund the services presently provided by SB Cares at the presently agreed level for 2019/20. However, the ability of Scottish Borders Council and Borders' Integration Joint Board to continue to provide this funding is dependent on the results of the strategic review, resource allocations to the Borders' Integration Joint Board and board approval.

As with any LLP placing reliance on council funding to continue in operation, the Members acknowledge that there can be no certainty that this funding will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on these indications the Members believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the LLP's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Accounting policies *(continued)*

(iv) 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'.

(v) Members' Capital

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

(vi) 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.

(vii) 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.

(viii) 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.

(ix) Income Recognition

The LLP has adopted IFRS 15 "Revenue from Contracts with Customers" in the 2019 financial statements and the IFRS has been applied prospectively from 1 April 2018. The change in accounting policy caused by the application of IFRS 15 has not had a material impact on the timing of revenue recognition or any material impact on the LLP's financial accounting. No adjustments were made on transition at 1 April 2018.

Accounting policies *(continued)*

IFRS 15 requires the LLP to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied, based on the transfer of control. Accordingly, the LLP continues to recognise income in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent that identified performance obligations are satisfied with respect to the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

(x) Trade and Other Debtors

Trade and other debtors are treated in line with IFRS 9 “*Financial Instruments*” for the 2019 financial statements. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses – refer to note (xii) *Financial Assets*.

(xi) Trade and Other Creditors

Trade and other creditors are treated in line with IFRS 9 “*Financial Instruments*” and are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

(xii) Financial Assets (including Trade and Other Debtors)

The LLP has adopted IFRS 9 “*Financial Instruments*” for the 2019 financial statements, and the IFRS has been applied prospectively from 1 April 2018. The change in accounting policy caused by the application of IFRS 9 has not had a material impact on the LLP’s operating profit or balance sheet. No adjustments were made on the transition at 1 April 2018.

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 measured at an amount equal to lifetime expected credit losses (ECLs). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the LLP considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the LLP’s historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the LLP expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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 is reported in line with IFRS 15 'Revenue from Contracts with Customers' which requires the LLP to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied, based on the transfer of control. Accordingly, the LLP continues to recognise income in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent that identified performance obligations are satisfied with respect to the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

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)	
	2017/18	2018/19
Administration	11	11
Staff costs for the above persons were:	£000	£000
Wages and salaries	419	450
Social security costs	43	43
Pension costs	56	65
Total Staff Costs	518	558

Notes to Annual Accounts *(continued)*

3 Cost of Sales

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

	Year to 31 March	
	2018 £000	2019 £000
Cost of Services from Scottish Borders Cares LLP	14,869	15,450
Property and Energy Costs	426	365
Transport and Travel Costs	476	423
Furniture, Fixtures and Equipment Costs	508	515
Other Cost of Sales	942	1,568
Total Cost of Sales	17,221	18,321

4 Administration Expenses

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

	Year to 31 March	
	2018 £000	2019 £000
Staff Costs (see Note 2)	601	290
Depreciation (See Note 7)	100	121
Auditor's Remuneration *	22	29
Other Administration Expenses	289	86
	1,012	526

*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	
	2018 £000	2019 £000
Other Interest Receivable	5	6
	5	6

Notes to Annual Accounts *(continued)*

6 Particulars of Members

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

7 Fixed Assets

	IT Systems & Equipment	Furniture, Fixtures & Fittings	Plant & Equipment	Rehabilitation Equipment	Total
	£000	£000	£000	£000	£000
Book Value as at 31 March 2018	20	-	113	850	983
Reclassification During Year	-	26	(26)	-	-
Additions During Year	-	11	11	75	97
Book Value as at 31 March 2019	20	37	98	925	1,080
Accumulated Depreciation to 31 March 2018	(12)	-	(15)	(107)	(134)
Depreciation Charge for year	(6)	(5)	(17)	(93)	(121)
Accumulated Depreciation to 31 March 2019	(18)	(5)	(32)	(200)	(255)
Net Book Value as at 31 March 2018	8	-	98	743	849
Change in Net Book Value during Year	(6)	32	(32)	(18)	(24)
Net Book Value as at 31 March 2019	2	32	66	725	825

Notes to Annual Accounts *(continued)*

	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	113	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

8 Stock

	As at 31 March	
	2018 £000	2019 £000
Raw Materials and Consumables	87	149
Total Stock	87	149

9 Debtors

	As at 31 March	
	2018 £000	2019 £000
Trade debtors	59	9
Amounts owed by Members	335	274
Prepayments and Accrued Income	275	1,057
Other Debtors	-	30
Total Debtors	669	1,370

Notes to Annual Accounts *(continued)*

10 Creditors: Amounts falling due within One Year

	As at 31 March	
	2018 £000	2019 £000
Trade Creditors	47	83
Amounts owed to Members	372	1,009
Value Added Tax	523	842
Accruals and Deferred Income	2,618	1,924
Other Creditors	59	69
Total Creditors: Amounts falling due within One Year	3,619	3,927

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 2019 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 2019 and of its loss 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.

Material uncertainty related to going concern

We draw attention to the profit and loss account of the financial statements which indicates that the LLP incurred a net loss of £251,000 for the year (2018: net profit of £44,000) and had net current liabilities of £227,000 (2018 net assets of £24,000), and the LLP's ability to continue as a going concern is dependent upon continued funding from Scottish Borders Council and Borders' Integration Joint Board, which is in turn dependent upon the outcome of a strategic review being undertaken within Scottish Borders Council. These events and conditions, along with the other matters explained in the accounting policies, constitute a material uncertainty that may cast significant doubt on the LLP's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the LLP's future prospects and performance.

Independent Auditor's Report to the Members of Scottish Borders Supports LLP (continued)

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the LLP's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a LLP and this is particularly the case in relation to Brexit.

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 16, 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.

Independent Auditor's Report to the Members of Scottish Borders Supports LLP (continued)

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

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

Jen Holland
Chief Operating Officer
SB Cares
Bristol Building
Newtown St Boswells
MELROSE
TD6 0SA

Telephone: 01835 826700
Email: info@sbcare.co.uk
Website: sbcare.co.uk

day services home care care homes independent living

SB CARES Bristol Building Newtown St Boswells Melrose TD6 0SA
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 2019



SBCARES
in safe hands

day services home care care homes independent living



Contents

	Page
Members' Annual Report	4
Statement of Members' Responsibilities for Members Report and Financial Statements	16
Financial Statements	
Profit and Loss Account	17
Balance Sheet	18
Statement Of Changes in Net Assets Attributable to Members	19
Accounting Policies	20
Notes to the Accounts	25
Independent Auditor's Report to the Members of Scottish Borders Cares LLP	35
Reference and Administrative Information	38

Members' Annual Report

The Members present their Annual Report and Financial Statements for the year ended 31 March 2019.

Principal Activity

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

The Partnership employs **876** staff (**570** full time equivalents) with a number of staff having more than one role.

These financial statements represent the results of the year from 1 April 2018 until 31 March 2019.

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 ("SB Supports") 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) Chief Operating Officer
- 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 Agreement between the two LLPs which commenced on 1 April 2015.

Members' Annual Report *(continued)*

2018/19 Financial Review – Scottish Borders Cares LLP

Overall the two LLP's were able to provide Scottish Borders Council an efficiency contribution rebate of **£206k** on the contract to provide adult social care services for the year ending 31 March 2019. Additional Funding notified for the Community Equipment Store (£250k) was not received in full and has not been resolved for the 2018-19 close, £125k was not received. Had the funding been received in full for the Community Equipment Store a contribution rate of £331k would have been returned prior to any pension adjustments.

These financial statements represent the results of the year of trading from 1 April 2018 until 31 March 2019. As shown in the table below in the year ended 31 March 2019, Scottish Borders Cares LLP generated an operating surplus on a management accountancy basis of £380k. Taking into account adjustment in the annual leave accrual (which resulted in a positive adjustment to the annual accounts) of £77k and pensions adjustments of £3,308k the overall position is a deficit of £2,851k in 2018-19. No liability for pensions was transferred at inception to SB Cares LLP 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.

	Year Ending 31 March	
	2018 £000	2019 £000
Total Comprehensive Income/(Loss) for the year	(735)	(2,851)
<i>Remove Accounting Standard Adjustments:</i>		
Retirement Benefits Adjustments	723	3,308
Annual Leave	-	(77)
Income/(Loss) for the year on a Management Accounts Basis	(12)	380

The major movement in the Financial Statements is the net increase of £3,308k (£723k in 2017/18) in the actuarial valuation of the LLPs Pension Liability Obligation. The actuarial valuation undertaken specifically for the annual accounts, is calculated in accordance with accounting standards, specifically International Accounting Standard (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. 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

Members' Annual Report *(continued)*

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.

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 2016/17 and this resulted in a full revaluation of the funding position for the LLP's pension obligations and including 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 date.

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 2 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.

Business Review – SB Cares

As stated previously Scottish Borders Supports LLP is one of the two LLPs 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.

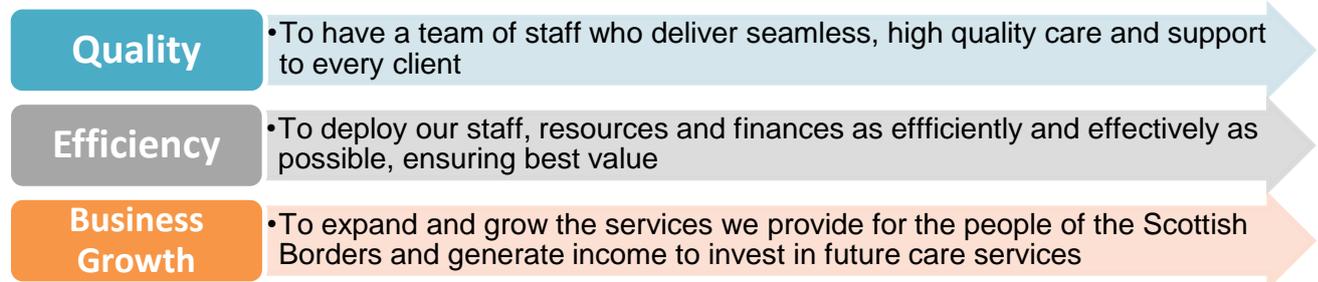
Strategic Context

SB Cares' Vision is to:

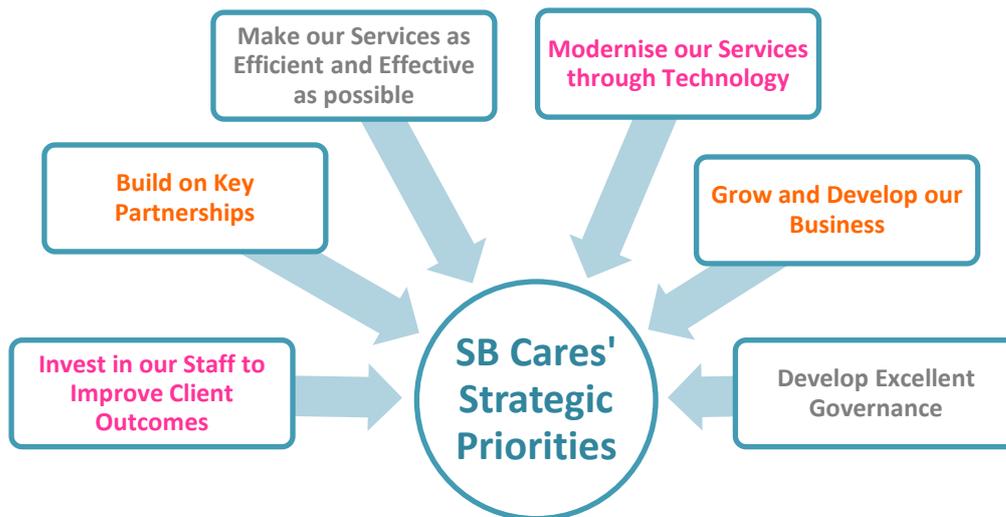


Members' Annual Report *(continued)*

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:



2018/19– Summary of Our Activities

2018/19 has been another busy and successful year for SB Cares and this report, at the end of our fourth year of trading, provides an overview of the activities throughout the year.

Key Facts and Figures for 2018/19

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.

Members' Annual Report *(continued)*

- 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 **127 long stay / respite beds** in a care home environment for those people with higher level needs.
- Providing 24 hour support through **39 Transitional and Discharge to Assess beds** to deliver improved patient care journeys.
- Supporting **181** clients through our older people and learning disability day services enabling people to remain at home and providing respite to families and carers.

Delivering Our Strategic Priorities during 2018/19

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

SB Cares has:

- a. implemented a robust classroom and work shadowing induction programme including familiarisation visits in order to continue to improve quality of care to clients; and
- b. developed support and monitoring frameworks for new and acting managers to provide tools and knowledge; and
- c. rolled out a management training programme for service line managers; and
- d. implemented new staffing models within Care at Home to support improving quality of care, and effectiveness of scheduling visits; and
- e. agreed and implemented the new rota system with Care at Home to provide consistency of care across a 24/7 service improving staff work life balance and quality of outcomes for clients.

✓ **Build on Key Partnerships**

SB Cares has:

- a. successfully implemented a collaborative approach to delivery of the Alarms Monitoring Service in conjunction with East Lothian Council through a successful tri-party agreement; and
- b. worked collaboratively with Scottish Borders Council to provide an outcome focused older people day service in pilot areas. This has been done under the Integrated Joint Board for Health and Social Care in partnership with NHS Borders; and
- c. worked with Borders College to secure delivery of SVQ social care courses.

Members' Annual Report *(continued)*

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

SB Cares has:

- a. successfully continued to implement further roll out of a dedicated vehicle fleet including electric vehicles 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;
- b. fully implemented the new rota across Homecare which provides a consistent, more responsive and flexible 7 day service;
- c. 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, enabling the provision of cost effective services in 2018-19, the delivery of increased service resilience and improved overall caller experience; and
- d. worked collaboratively with Human Resources, Scottish Borders Council to implement a project with regards to sickness absence delivering a reduction in the level of absence.

✓ **Modernise our Services through Technology**

SB Cares has:

- a. developed and implemented a programme of technology training sessions predominantly aimed at Scottish Borders Council Social Work Services resulting in an increase in technology referrals; and
- b. commenced a pilot within Homecare to trial "Armed" a technology system solution focussed on falls prevention.

✓ **Grow and Develop our Business**

SB Cares has:

- a. earned our first grade 6 awarded from the Care Inspectorate within St Ronans Care Homes and subsequently nominated for a National Care Award; and
- b. engaged with Meridian a consultancy firm specialising in health care productivity through the Integrated Joint Board to look at opportunities within services to develop productivity outcomes.

✓ **Develop Excellent Governance**

SB Cares has:

- a. engaged effectively with the IJB, Scottish Borders Council Major Contracts Governance Group, Audit and Scrutiny Committee and Corporate Management Team. Delivered against key priorities 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 based on the National Care Standards, and on relevant regulations. The new quality framework distilled these standards into quality statements which fell into four categories, Quality of Care, Quality of Environment, Quality of Staff and Quality of Management. Each quality statement inspected is graded as follows:

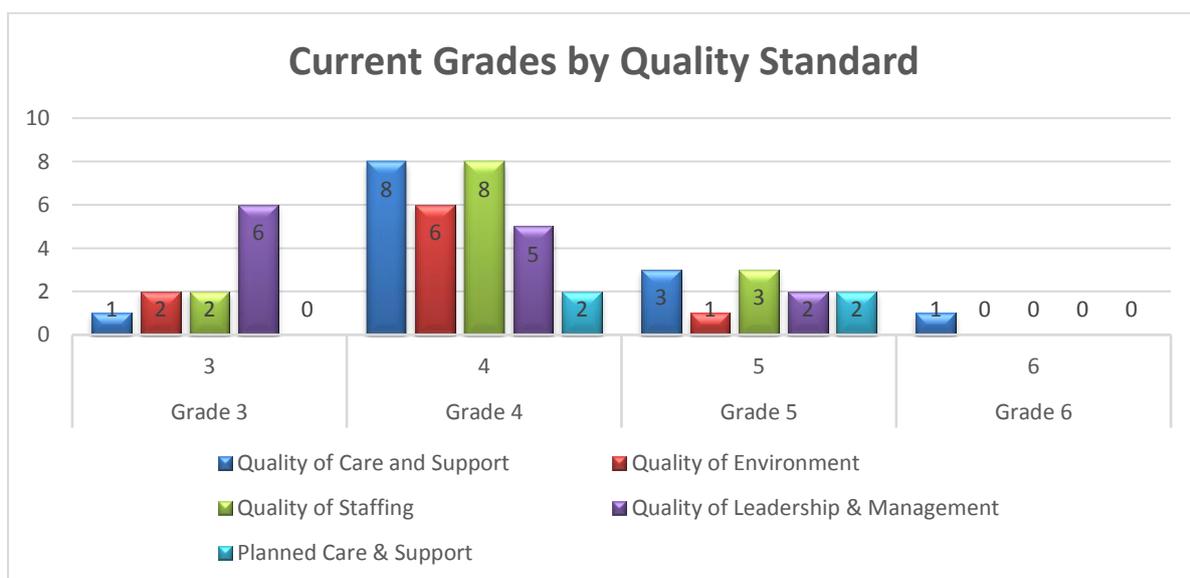
- Grade 6 – Excellent
- Grade 5 – Very good
- Grade 4 – Good
- Grade 3 – Adequate
- Grade 2 – Weak
- Grade 1 – Unsatisfactory

The grades are then aggregated for each of the four categories, so that published inspection reports give four grades for the service.

Due to the new quality standards and grading a direct comparison to prior gradings is not practical. Graph 1 below highlights current grades by themes and previous overall grades.

SB cares was also awarded its first **grade 6** in 2018-19.

GRAPH 1



Members' Annual Report *(continued)*

Previously Care Inspectorate grading was not themed and one grade was received at each inspection report for each registration. This cannot be compared directly with the themed approach to grading and the following table details the grades received previously for reference purposes.

Grade	%
Grade 3	45%
Grade 4	44%
Grade 5	11%

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 – 2018/19

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.

Overall across the two companies Supports and Cares, the LLP was able to provide Scottish Borders Council an efficiency contribution rebate of **£206k** on the contract to provide adult social care services for the year ending 31 March 2019. If approved funding was received in full for the Community Equipment Store a contribution rate of £330k would have been returned prior to any pension adjustments.

The total amount of the cumulative contribution returned since inception totals **£3.656m** a **7%** return rate on grant funding.

The table below shows the combined position for the 2 LLPs, showing the Comprehensive Income and Expenditure reported position per the 2018/19 Annual Accounts and the trading position as presented on a management accounts basis for 2018/19.

	Year Ending 31 March 2019		
	SB Supports LLP	SB Cares LLP	Total SB Cares
	£000	£000	£000
Total Comprehensive Income/(Loss) for the year	(251)	(2,851)	(3,102)
<i>International Accounting Standard Adjustments:</i>			
IAS 19 Retirement Benefits Adjustments	-	3,308	3,308
SBC Service Efficiency Contract Rebate including holiday accrual	-	206	206
Income/(Loss) for the year on a Management Accounts Basis	(251)	251	0

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 **£206k** 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:

Members' Annual Report *(continued)*

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Recurring Savings returned to SBC:				
2015/16	480	480	480	480
2017/18	-	-	465	465
2018/19				206
Total Recurring Savings	480	480	945	1,151
One-Off Savings returned to SBC - 2016/17	-	600	-	-
Annual Savings	480	1,080	945	1,151
% of Contractual Management Fee	3%	7%	6%	7%
Cumulative Savings	480	1,560	2,505	3,656

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

- ✓ Contract out of delivery of Alarms systems monitoring with East Lothian Council
- ✓ Continuation of fleet optimisation activity especially in Home Care
- ✓ Reduction in absence

In conclusion the Members Report and Financial Statements for the year ended 31 March 2019, 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

Xth September 2019

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 2019

2018		2019	Notes to Accounts Ref
£000		£000	
14,890	Turnover	15,489	1
(17,227)	Cost of Sales	(17,513)	2, 6
(2,337)	Gross Loss	(2,024)	
-	Administrative Expenses	(1)	
(2,337)	Loss on Ordinary Activities after Taxation	(2,025)	
(2,337)	Profit/(Loss) for the Financial Year Available for Discretionary Division Among Members	(2,025)	
	Other Comprehensive Income/(Loss):		
1,602	Actuarial (Loss)/Gain from Pension Obligations	(826)	6
(735)	Total Comprehensive Loss for the year	(2,851)	

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

Balance Sheet

at 31 March 2019

2018		2019	Notes to Accounts Ref
£000		£000	
	Current Assets		
408	Debtors	1,021	4
6	Cash at Bank and in Hand	9	
414		1,030	
	Creditors		
(772)	Amounts falling due within 1 year	(932)	5
(358)	Net Current Liabilities	99	
(4,347)	Provisions for Liabilities – Pension and Similar Obligations	(7,655)	6
(4,705)	Net Liabilities attributable to Members	(7,556)	
	Represented by:		
	Members' Other Interests:		
-	Members Capital Account	-	
(4,347)	Pensions Reserve	(7,655)	
(358)	Profit and Loss Reserve	99	
(4,705)	Total Members' Interests	(7,556)	

The Accounting Policies on pages 20 to 24 and the Notes to the Accounts on pages 25 to 34 form part of these Financial Statements. These financial statements were approved by the Members and authorised for issue on Xth September 2019 and were signed on its behalf by:

Philip Barr
For and on behalf of
Scottish Borders Council
Designated member
Company registered number: **SO305156**
Xth September 2019

Statement of Changes in Net Assets Attributable to Members

For the year ended 31 March 2019

	Members Capital Account £000	Pension Reserve £000	Profit & Loss Reserve £000	Total Members Interests £000
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)
Balance at 1 April 2018	-	(4,347)	(358)	(4,705)
Surplus / Loss for the Financial Year Available for Discretionary Division Among Members	-	-	(2,025)	(2,025)
Actuarial (Loss) from Pension Obligations	-	(826)	-	(826)
Transfer to/From Pension Reserve	-	(2,482)	2,482	-
Balance at 31 March 2019	-	(7,655)	99	(7,556)

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 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) Changes in accounting policies in 2019

The LLP has applied IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" with effect from 1 April 2018. Due to the transition methods chosen by the LLP in applying the two standards, comparative information throughout these financial statements has not been restated.

The impact of applying applied IFRS 15 "Revenue from Contracts with Customers" is set out in the income recognition accounting policy note *(viii)* and the impact of applying IFRS 9 "Financial Instruments" is set out in the financial assets accounting policy note *(x)*.

IFRS 15 introduces a 5 step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking expected credit loss model for impairment rather than the previous incurred loss model.

Accounting policies *(continued)*

Both of these changes have been considered as part of the preparation of the LLP's accounts for 2019 and neither are considered to have had a material impact on the financial statements.

(iii) 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. Notwithstanding net current liabilities of £7,556,000 as at 31 March 2019 and a loss for the year then ended of £2,851,000 the financial statements have been prepared on a going concern basis which the Members consider to be appropriate for the following reasons.

The Members have prepared cashflow forecasts for a period of 18 months from the date of the approval of these financial statements which indicate that, taking account of reasonably possible downsides, the LLP will have sufficient funds, through continuing funding from Scottish Borders Council, to meet its liabilities as they fall due for that period.

The cash flow forecasts take into account the fact that the LLP has a service provision agreement in place with Scottish Borders Council until March 2020, which the Members expect to be renewed and will continue to provide the existing or an increased level of funding over a period of three to five years. Scottish Borders Council, together with the Borders' Integration Joint Board, are currently undertaking a strategic review of its arrangements for the provision of Adult Social Care Services in line with the recommendations of the Audit Scotland's 2018 report "Council's Use of Arms-length Organisations", which will review all council services.

Scottish Borders Council and Borders' Integration Joint Board have indicated their intention to continue to fund the services presently provided by SB Cares at the presently agreed level for 2019/20. However, the ability of Scottish Borders Council and Borders' Integration Joint Board to continue to provide this funding is dependent on the results of the strategic review, resource allocations to the Borders' Integration Joint Board and board approval.

As with any LLP placing reliance on council funding to continue in operation, the Members acknowledge that there can be no certainty that this funding will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Additionally, the Members have received a guarantee for SB Cares LLP pension liability from Scottish Borders Council which has the effect of covering the obligations that create the LLP's net liability position.

Based on these indications the Members believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the LLP's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in

Accounting policies *(continued)*

the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

(iv) 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'.

(v) Members' Capital

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

(vi) 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.

(vii) 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.

(viii) Income Recognition

The LLP has adopted IFRS 15 "Revenue from Contracts with Customers" in the 2018 financial statements and the IFRS has been applied prospectively from 1 April 2018. The change in accounting policy caused by the application of IFRS 15 has not had a material impact on the timing of revenue recognition or any material impact on the LLP's financial accounting. No adjustments were made on transition at 1 April 2018

IFRS 15 requires the LLP to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied, based on the transfer of control. Accordingly, the LLP continues to recognise income in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent that identified performance obligations are satisfied with respect to 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 in line with IFRS 9 "Financial Instruments" for the 2019 financial statements. 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

Accounting policies *(continued)*

(ix) Trade and Other Creditors

Trade and other creditors are recognised in line with IFRS 9 "*Financial Instruments*" for the 2019 financial statements. 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

(x) Financial Assets

The LLP has adopted IFRS 9 "*Financial Instruments*" for the 2019 financial statements, and the IFRS has been applied prospectively from 1 April 2018. The change in accounting policy caused by the application of IFRS 9 has not had a material impact on the LLP's operating profit or balance sheet. No adjustments were made on the transition at 1 April 2018.

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 measured at an amount equal to lifetime expected credit losses (ECLs). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the LLP considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the LLP's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the LLP expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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 is reported in line with IFRS 15 'Revenue from Contracts with Customers' which requires the LLP to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied, based on the transfer of control. Accordingly, the LLP continues to recognise income in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent that identified performance obligations are satisfied with respect to the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

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:

	2017/18	2018/19
Number of Employees - Front Line Services Staff (FTE)*	550	570

** a number of employees have part-time contracts*

Staff costs for the above persons were:	£000	£000
Wages and salaries	11,860	11,970
Social security costs	788	818
Pension costs	4,100	4,360
Total Staff Costs	16,748	17,148

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.

Notes to Annual Accounts *(continued)*

4 Debtors

	As at 31 March	
	2018 £000	2019 £000
Trade Debtors	2	11
Amounts Owed by Group Members	334	957
Prepayments and Accrued Income	4	15
Value Added Tax	25	24
Other Debtors	43	15
Total Debtors	408	1,021

5 Creditors: Amounts falling due within One Year

	As at 31 March	
	2018 £000	2019 £000
Other taxation and social security	(363)	(338)
Accruals and deferred income	(408)	(594)
Other creditors	(1)	-
Total Creditors: Amounts falling due within One Year	(772)	(932)

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.

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

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.

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.

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

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 2019.

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. We are not aware of this arising in 2019.

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.

	2018 £000	2019 £000
Present Value of Funded Defined Benefit Obligations	(13,285)	(18,961)
Fair Value of Plan Assets	8,938	11,306
Net Pension Liability	(4,347)	(7,655)

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

<i>Movements in Present Value of Defined Benefit Obligation:</i>	Year to 31 March	
	2018 £000	2019 £000
Opening Defined Benefit Obligation	8,864	13,285
Current Service Cost	4,052	3,935
Past Service Costs	5	275
Interest Cost	255	388
Actuarial Losses/(Gains)	(343)	1,389
Contributions by Members	569	547
Estimated Benefits Paid Net of Transfers in	(117)	(858)
Closing Defined Benefit Obligation	13,285	18,961

<i>Movements in Fair Value of Plan Assets:</i>	Year to 31 March	
	2018 £000	2019 £000
Opening Fair Value of Plan Assets	5,240	8,938
Expected Return on Plan Assets	1,435	811
Contributions by Employer	1,811	1,868
Contributions by Members	569	547
Estimated Benefits Paid plus Unfunded Net Of Transfers In	(117)	(858)
Closing Fair Value of Plan Assets	8,938	11,306

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

	Year to 31 March	
	2018 £000	2019 £000
Recognised in the Profit and Loss Account		
Service Cost	4,057	4,210
Interest on Defined Benefit Pension Plan Obligation	77	140
Administration Expenses	2	-
Recognised Pensions Service Costs	4,136	4,350
Re-measurements in Other Comprehensive Income:		
Return on Fund Assets in Excess of Interest	144	563
Other Actuarial Gains/(Losses) on Assets	1,115	-
Change in Financial Assumptions	742	(1,389)
Change in Demographic Assumptions	341	-
Experience Gain/(Loss) on Defined Pension Obligation	(740)	-
Re-measurements of Net Assets / (Defined Liability)	1,602	(826)

	2018 *		2019	
	£0	%	£0	%
Equities	5,899	66	6,331	56
Bonds	1,788	20	3,053	27
Property	1,251	14	1,696	15
Cash	-	-	226	2
Total Estimated Fair Value of Plan Assets	8,938	100%	11,306	100%

* 2018 fair value of the Plan assets are restated in line with 2019 methodology following a change in actuaries and basis of asset classification.

Notes to Annual Accounts *(continued)*

6 Employee Benefits *(continued)*

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:

	2018 *	2019
	%	%
Discount Rate	3.8	2.4
Future Salary Increases	4.3	3.5
Pension Increase Rate	2.5	2.5

* **The 2018 actuarial assumptions are not restated for 2018.**

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)			
	2018		2019	
	Males	Females	Males	Females
Employee retiring today	21.6	24.2	21.6	24.2
Employee retiring in 20 years	23.3	26.0	23.3	26.0

Financial Assumptions

The financial assumptions were set with reference to market conditions at 31 March 2019 and include:

	Financial Assumptions (%)	
	2018	2019
Discount Rate	2.60	2.40
Pension Increases	2.30	2.50
Salary Increases	3.30	3.50

The LLP expects to contribute approximately £1.86 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.

Change in assumption as at 31 March 2019	
Adjustment to discount rate	-0.50%
Approximate increase in employer liability	12%
Approximate monetary amount	2,202
Increase in salary increase rate	0.50%
Approximate increase in employer liability	0
Approximate monetary amount	394
Increase in pension increase rate	0.50%
Approximate increase in employer liability	0
Approximate monetary amount	1,764

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. Post Balance Sheet Events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements

9 Ultimate Parent Organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

Notes to Annual Accounts *(continued)*

10 Related Parties

Scottish Borders Council made a contribution in line with the Partnership Agreement of £20M. Additional funding was also received for Scottish Borders Council for additional contracted works of £774k.

Facilities were leased to the LLP for a peppercorn rent. Scottish Borders Council also provided various support functions including Legal, HR, Payroll and IT which the company received free of charge.

11 New Standards

The LLP has applied the following new amended or improved standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" for the first time in the 2019 financial statements. Due to the transition methods chosen by the LLP in applying the two standards, comparative information throughout these financial statements has not been restated.

Both of these changes have been considered as part of the preparation of the LLP's accounts for 2019 and neither are considered to have had a material impact on the financial statements.

12. Standards issued but not yet effective

IFRS 16 – leases for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the LLP has not early adopted the new or amended standards in preparing these consolidated financial statements.

IFRS 16 is expected to have a material impact on the LLP's financial statements in the period of initial application based on early testing. The LLP plans to apply IFRS 16 initially on in the year end accounts for 2020, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 31st March 2019, with no restatement of comparative information.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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 2019 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 2019 and of its loss 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.

Material uncertainty related to going concern

We draw attention to the profit and loss account of the financial statements which indicates that the LLP incurred a net loss of £2,851,000 for the year (2018: net loss of £735,000) and had net current liabilities of £7,556,000 (2018 net current liabilities of £4,705,000), and the LLP's ability to continue as a going concern is dependent upon continued funding from Scottish Borders Council and Borders' Integration Joint Board, which is in turn dependent upon the outcome of a strategic review being undertaken within Scottish Borders Council. These events and conditions, along with the other matters explained in the accounting policies, constitute a material uncertainty that may cast significant doubt on the LLP's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis.

Independent Auditor's Report to the Members of Scottish Borders Cares LLP (continued)

of preparation of the financial statements. All of these depend on assessments of the future economic environment and the LLP's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the LLP's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a LLP and this is particularly the case in relation to Brexit.

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 16, 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.

Independent Auditor's Report to the Members of Scottish Borders Cares LLP (continued)

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

Reference and Administration Information

Company Name Scottish Borders Cares LLP

Company Registration Number SO305156

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

Actuary Hymans Robertson LLP
1 Semple Street
EDINBURGH
EH3 8BL

Contact Information

For further information on Scottish Borders Cares LLP, please contact

Jen Holland
Chief Operating Officer
SB Cares
Bristol Building
Newtown St Boswells
MELROSE
TD6 0SA

Telephone: 01835 826700
Email: info@sbcare.co.uk
Website: sbcare.co.uk

day services home care care homes independent living

SB CARES Bristol Building Newtown St Boswells Melrose TD6 0SA
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.



This page is intentionally left blank

Scottish Borders Council
Lowood Tweedbank Limited
Charity Registration Number: SC615148

members' report and financial statements

for the period 30 November 2018
to 31 March 2019

Contents

	Page
Reference and Administrative Information	2
Financial Statements	
Profit and Loss Account	3
Balance Sheet	3
Accounting Policies	5
Notes to the Accounts	6
Contact Information	7

Reference and Administrative Information

Company Name	Lowood Tweedbank Limited
Company Registration Number	SC615148
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

Professional support

The Council provides the Administrative, Legal and Financial support and advice to Lowood Tweedbank Limited.

Principal Activity

Lowood Tweedbank Limited was established on 30 November 2018. It's principal activity is to act as mid-landlord of the residential properties at Lowood Estate in order to ensure the continuation of the tenancy arrangements.

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2019

	2018/19	Notes
Turnover	14,270	1
Cost of Sales	(14,270)	2
Gross Profit	0	
Operating Profit	0	

BALANCE SHEET as at 31 March 2019

	2018/2019		Notes
	£	£	
Fixed Assets		0	
Current Assets			
Debtors	12,186		3
Cash at Bank	2,085		
Creditors			
Amounts falling due within 1 year	(14,270)		4
Net Current Assets		1	
Net Assets attributable to Members		1	
Represented By:			
Capital Account	1		5
Profit and Loss Reserve	0		
Total Members' Interests		1	

The Accounting Policies on page 5 and the Notes on page 6 form part of these Financial Statements.

These financial statements were approved by the members and authorised for issue on 26 September 2019 and are signed on their behalf by:

David Robertson CPFA
Designated Member
Scottish Borders Council
26 September 2019

Company Registered Number: SC615148

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.
- 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 residential properties.

Cash and Liquid Assets

Cash 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.

NOTES TO THE FINANCIAL STATEMENTS

1 Turnover

	2018/19 £
Rental Income	14,270
	14,270

2 Cost of Sales

	2018/19 £
Rental Income paid to Scottish Borders Council	(14,270)
	(14,270)

3 Debtors

	2018/19 £
Unpaid Rental Income	12,186
	12,186

4 Creditors: Amounts Falling Due Within One Year

	2018/19 £
Unpaid Rental Income due to Scottish Borders Council	(14,270)
	(14,270)

5 Members' Capital

	2018/19 £
Initial Capital - Scottish Borders Council	1
	1

CONTACT INFORMATION

For further information on Lowood Tweedbank Limited, please contact

Suzy Douglas

Financial Services Manager

Scottish Borders Council

Telephone: 01835 – 825881

E-mail: sdouglas@scotborders.gov.uk

Council Headquarters

Newtown St Boswells

MELROSE

TD6 0SA

Scottish Borders Council Pension Fund

annual report and accounts

for the year to 31 March 2019



Contents

	Page
Report by Chairman of Pension Fund Committee	2
Management Commentary	
Management and Financial Performance	3
Investment Strategy	8
Review of Investment Performance	9
Funding Position	11
Pensions Administration Update	12
Governance	
Annual Governance Statement 2018/19	16
Governance Compliance Statement 2018/19	18
Risk Management Statement	23
Statement of Responsibilities for the Statement of Accounts	24
Statement of Accounts 2018/19	
Fund Account 2018/19	25
Net Assets Statement as at 31 March 2019	26
Notes to the Statement of Accounts	27
Independent Auditor's report	52
Annex 1 Barnett Waddingham Valuation Report	55
Annex 2 Glossary of Terms	58
Additional Information	60

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 2019. 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 2018/19.

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. All members of the Committee have completed The Pension Regulator's Trustee Toolkit and 75% of Board completed.

The Joint meetings of the Committee and Board continued during 2018/19 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee has met all investment managers during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

The value of the Pension 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 September 2018.

The overall Fund grew by 7.6% during 2018/19, marginally underperforming its benchmark by 0.1%. The overall fund value increased to £732.9m, an increase of £48.3m.

The Fund has made good progress rebalancing the asset allocation towards the approved strategy. Exposure to equity investment has consequently been reduced from 58% to 48% of the overall fund. Investment in infrastructure has increased by 2.4% during the year and the fund continues to investigate opportunities to further invest in this asset class in collaboration with Lothian Pension Fund.

New appointments were made during the year for Infrastructure Debt managers who have now commenced the drawing down of the allocated funds.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance issues can positively affect the performance of the Fund. A Statement of Responsible Investment was approved forming a corner stone to the Fund ESG policies.

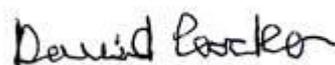
Pensions Administration

100% of annual benefit statements were distributed within the required timescales and work has progressed well in finalising the GMP reconciliation.

Following a procurement process the Fund appointed a new actuary Hymans Robertson on 1st December 2018.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, our investment advisor KPMG, our outgoing actuary Barnett Waddingham and the new actuary Hymans Robertson 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

2018/19 Key Highlights

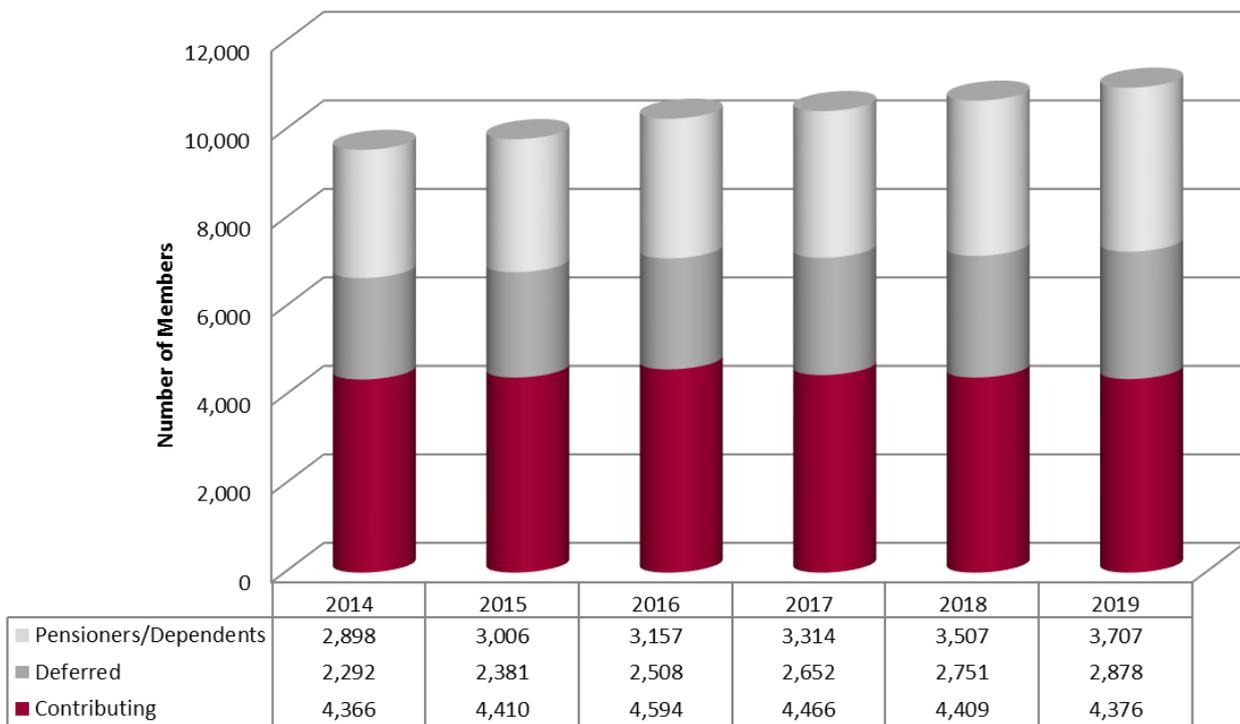
- £732.9m Net assets, an increase of £48.3m on 2018/19
- Strong performance return of 7.6% for 2018/19 and 11.3% for the rolling 3 year period
- Fund continues to meet its strategic investment return benchmark over the rolling 3 year period
- Continued sound governance of the Fund and engagement of Members in the training programme
- 10,961 Members, an increase of 294 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 27 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 10,961 of which 4,376 are actively contributing and 3,707 are in receipt of pension benefits. The following chart provides a summary of 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 2014 the total membership has increased by 1,111 members (a 12% increase overall). During this period the number of pensioners and their dependents has increased by 28%, and the number of active contributing members has increased by 0.2%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was considered when the last full investment review was undertaken.

Financial Performance

The Financial Statements for the Fund are set out from page 27.

Key Figures from these are set out below:

	2017/18 £'000	2018/19 £'000
Net (Withdrawals) from Dealings with Members	(2,579)	(3,610)
Net Return on Investments	41,486	58,454
Net Increase/(decrease) in the Fund during the Year	30,190	48,316
Closing Net Assets of the Scheme	684,583	732,899

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 £48.3m in Net Assets**
- **A Net Withdrawal position of £3.6m 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.

The changes in 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

The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015 introduce new statutory governance framework for Scottish LGPS funds , setting out the mandatory role of the Scheme Manager and the establishment of the National Scheme Advisory Board and local Pension Boards to improve governance arrangements. The regulations require the Board and Committee to meet jointly at least 4 times annually.

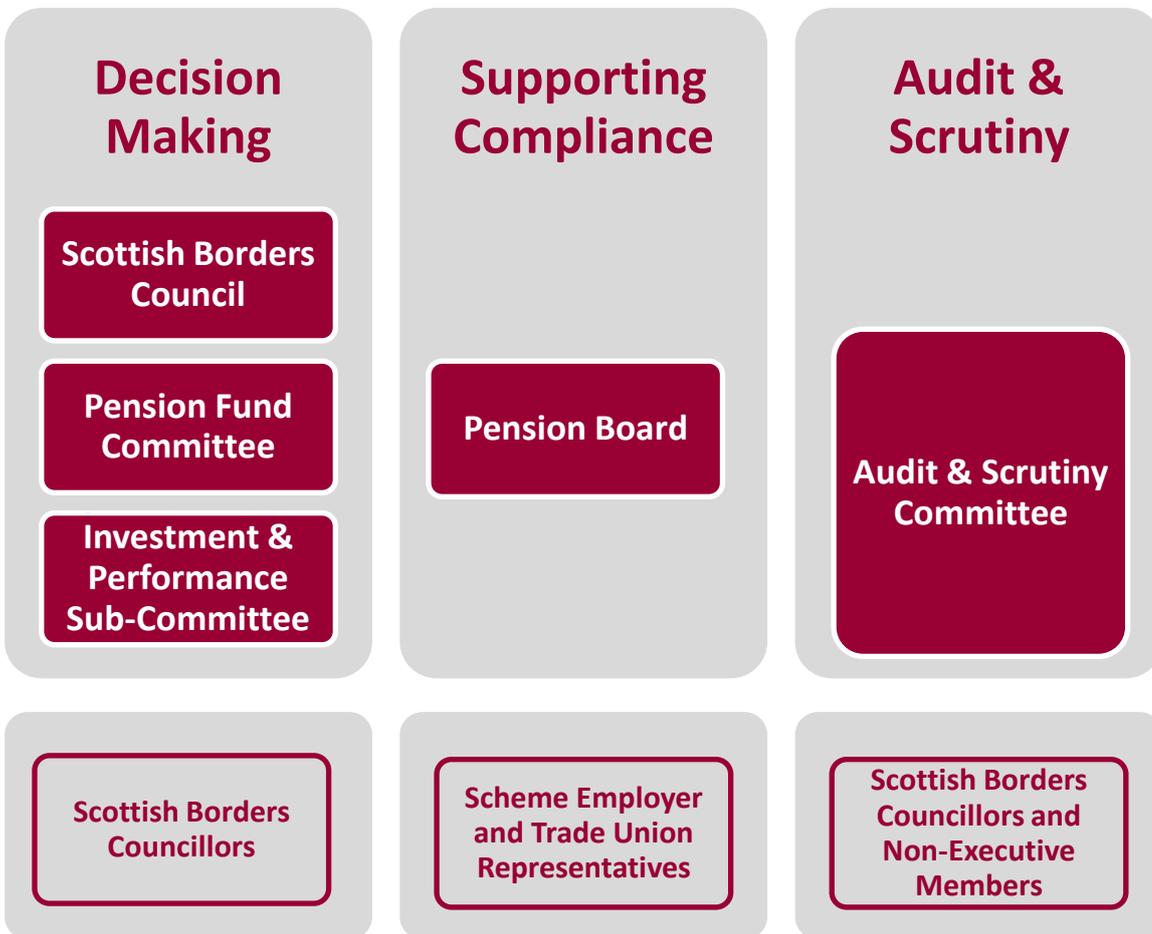
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- 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 2019 can be found on pages 16 to 22.

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 2018/19 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 Benefits structure

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 2018/19 performance is set out below.

<i>Pension Fund Committee</i>	Number of Committee Members Attending	
% Attendance	Committee	Training
100% (4 sessions or more)	2	3
75% (3 sessions)	3	1
50% (2 sessions)	0	1
≤ 25% (1 or no sessions)	2	2

<i>Pension Fund Board</i>	Number of Board Members Attending	
% Attendance	Committee	Training
100% (4 sessions or more)	2	3
75% (3 sessions)	3	2
50% (2 sessions)	0	2
≤ 25% (1 or no sessions)	3	1

The Policy requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. 72% of Members of the Pension Fund Committee met the training and attendance targets set in the Training Policy. 62% of the Pension Fund Board met the attendance target and 87% met the training target. The Training policy also from 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 100% of the Committee and 75% 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 18.

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 dependents' 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 2018/19 – 2020/21 on 14 June 2018 and this presented the action plan associated with supporting the delivery of these aims and objectives. The following key actions were completed during 2018/19.

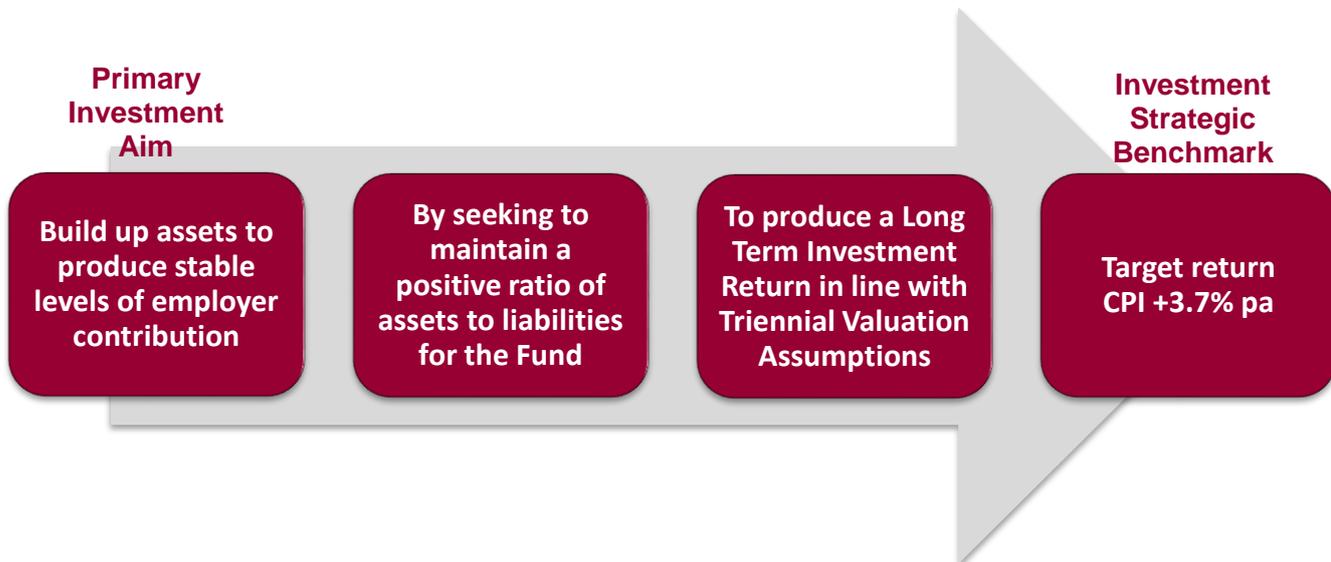
- **2017/18 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications**
- **Review of Funding Strategy Statement and asset allocation completed following 2017 triennial valuation**
- **Review of AVC provider and provision completed**
- **Strong progress made in Private Credit and Infrastructure asset categories per Investment strategy**
- **Tender process completed for Fund Actuary resulting in appointment of Hymans Robertson**

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 13 June 2019 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 is shown below:



The following table indicates the actual position at 31 March 2019 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/18 %	Asset Allocation at 31/3/19 %	Strategic Benchmark %
UK Equity	15.2	14.4	10.0
Global Equity	43.0	33.9	30.0
Bonds	15.2	21.2	15.0
Alternatives	11.9	13.5	17.5
Property	14.0	13.5	15.0
Infrastructure	0.6	2.9	12.5
Cash	0.1	0.6	0.0
Total	100.0	100.0	100.0

As can be seen from the table above there has been 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. To reduce the Funds equity risk some of the overweight position in equities has been disinvested and is being held in the Bonds portfolios until the infrastructure and private credit portfolios are in a position to draw down.

The strategic benchmark represents the asset allocation as approved in September 2018 and contained with the 2019 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2018/19 in numbers

- Strong 3 year annualised investment performance of 11.3%, 1.3% above benchmark

- Strong 1 year performance to March 2019 with investment returns of 7.6% in the year compared to a benchmark of 7.7%
- Good progress achieved in implementation of the revised asset strategy

Key Success 2018/19

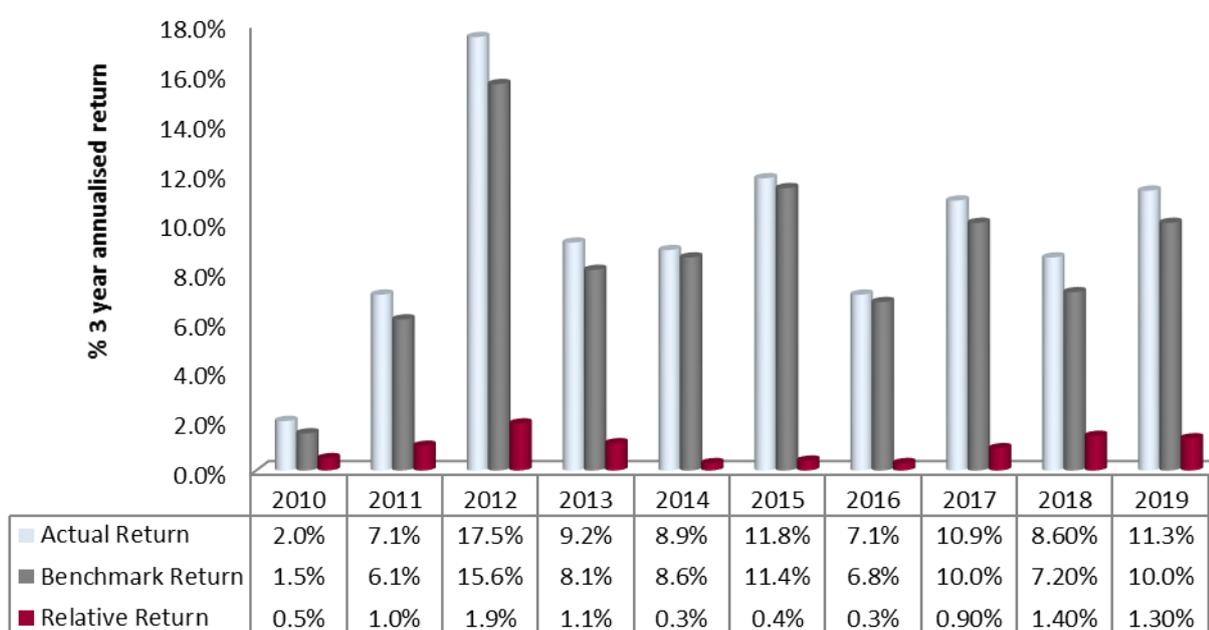
Investment Markets

Equities experienced a volatile period during the end of the calendar year. Quarter 1 2019 however saw most funds rebound to provide positive returns. The weakness of sterling against most major currencies however continues to affect the performance of Fund.

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. On average the fund has returned relative out performance against bench mark of 0.91% per annum over the last 10 years.

3 Year Annualised Returns ending 31 March



The Fund achieved favourable returns in 2018/19, with Fund Managers producing a positive return of 7.6% against a benchmark of 7.7%. Global equities provided the highest out performance against benchmark, despite a dip in values in the final quarter of the year.

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 during the year giving Committee 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 31/3/2019	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	7.6	7.7	11.3	10.0
Global Equities	12.6	12.8	17.1	15.3
UK Equities	6.0	6.4	10.0	9.5
Bonds	2.0	4.0	4.3	4.1
Alternatives	5.0	4.8	5.0	4.6
Property	5.5	4.9	5.6	5.8
Cash	-	-	-	-

The performance of the Fund overall was under its benchmark by 0.1% in the rolling 1 year but exceeded the rolling 3 year benchmark. The rolling 1 year performance was aided by strong performance from Baillie Gifford and Morgan Stanley in their global mandates.

Top 20 Direct Equity Holdings at 31 March 2019

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	6.8	Alphabet Inc	3.0
Naspers	5.7	Visa Inc	2.9
Amazon	4.9	Apache Corp	2.6
ADR Alibaba Group	4.7	Ping An Insurance Group	2.6
Anthem Inc Com	3.9	SAP SE	2.5
ADR ICICI BK Ltd	3.5	Pernod Ricard NPV	2.5
AIA Group Ltd	3.4	BCO Bradesco	2.0
Moodys	3.3	CRH PLC	2.0
Mastercard	3.3	Thermo Fisher Corp	1.9
BHPGroup PLC	3.1	Waters Corp	1.9

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 31 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.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	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 19 to the Statement of Accounts on page 47, 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 2019

Note 19 to the Statement of Accounts on page 45, 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 £209m. 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

2018/19 in Numbers	<ul style="list-style-type: none">• 17 Scheme Employers• £22.8m of Pension and Other Benefits paid during year• £19.4m of Contributions Received from 4,376 Active Members and their Employers• 6,605 Benefits Statements issued
Key Successes 2018/19	<ul style="list-style-type: none">• Launch of Scottish Borders Council Pension Fund Website• Processing of Pension payments from Business World implemented from 1st April 2017, fully implemented 2018/19• Successful training and development of new staff following staff retirements within the team• 97% of contributions received from Employer Bodies on time

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2018/19 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 schemes managed and administered by Scottish Public Pensions Agency.

There are 17 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

Membership Details as at 31 March 2019	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	3,269	3,327	2,440	9,036
Borders College	162	70	80	312
Visit Scotland (Scottish Borders)	1	7	8	16
	3,432	3,404	2,528	9,364
Active Admitted Bodies:				
Scottish Borders Housing Association	80	95	73	248
LIVE Borders	152	45	58	255
SBCares	669	112	178	959
Jedburgh Leisure Facilities Trust	2	1	1	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited (TUPEE Staff only)	4	6	4	14
CGI (TUPEE Staff only)	37	2	5	44
	944	263	326	1,533
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	-	23	4	27
	-	40	24	64
Total	4,376	3,707	2,878	10,961

Member Engagement

The Scheme Employer Liaison meeting was held during 2018/19 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.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2018. 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 2018/19 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 13 June 2019 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 2018/19 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	2018/19 % on Target
Estimates – Transfer In	98	20 Days	47.96%
Estimates – Transfer Out	96	20 Days	56.25%
Estimate – All Other	1,036	10 Days	83.01%
Total Estimates	1,230		

Service Standard – Query Response Turnaround

Standard	2017/18		2018/19	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	1999	99.75%	3,323	99.64%
Benefit Statement queries – within 20 working days	67	100%	232	99.57%
Total	2,066		3,555	

Service Standard - Other

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

There has been no significant change in the response times for queries, even with a marked increase in the number of queries having been received over the year.

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	637	90%	100%
Retirement info – at least 20 working days before	227	90%	100%
Early leaver notification – within 20 working days	536	90%	100%
Death in service notification – within 10 working days	12	90%	100%

During 2017/18 Scottish Borders Council implemented a new ERP system, including a payroll module, this led to a marked reduction in performance over this period. As can be demonstrated by the above the performance standards are back to the previous high standard with information being passed to the Pensions Administration Team in accordance with the set standards in all instances.

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	9	3	75%
LIVE Borders	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%
CGI	12	-	100%

97% of the payments were received the target date within the target date or within a maximum of 4 calendar days. 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, CPFA
Chief Financial Officer
Scottish Borders Council

26 September 2019

GOVERNANCE

Annual Governance Statement 2018/19

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 13 June 2019) 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. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control) and this is reflected in the Council's governance arrangements.
- 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. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pensions Board meets jointly with the Committee, and 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 2018/19 – 2020/21 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. The Business plan will ensure actions are included to address any issues raised in the annual governance statement.
- 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 Service Director Human Resources 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 Scrutiny 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 Scrutiny 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 2018/19, (pages 18 – 22).

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 Chief Officer Audit and Risks opinion is that based on Internal Audit reviews and knowledge, the systems of internal control within Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective.

Improvement Areas of Governance

The areas of improvement completed during 2018/19 were the following;

- a) Development and approval of Responsible Investment Policy
- b) Completion of annual assessment of Investment Advisor, Custodian and Actuary.

The review has identified some areas where further improvements for 2019/20 that can be made to enhance the existing governance arrangements:

- a) Development and approval of cessation and Discretion Policy.
- b) Develop and implement an annual monitoring of Responsible Investment Policy.

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 18 – 22).

Councillor David Parker
Chairman
Pension Fund Committee
26 September 2019

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2018/19

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 administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint 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 2018 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	-	-	2	4
Administrative	-	8	-	-	1	7
Regulatory & Compliance	3	2	-	1	2	2
Reputation	2	4	-	-	2	4
Total Number of Risks	11	33	0	1	19	24

The one risk that remains at red assessment i.e. high risk as at 31 March 2019 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 2019, and of its income and expenditure for the year ended 31 March 2019.

Councillor David Parker
Chairman
Pension Fund Committee

David Robertson, CPFA
Chief Financial Officer
Scottish Borders Council

26 September 2019

**SCOTTISH BORDERS COUNCIL PENSION FUND
STATEMENT OF ACCOUNTS 2018/19
FUND ACCOUNT**

2017/18 £'000		2018/19 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,365	Contributions	19,385	7
245	Transfers in from other pension funds	1,262	8
19,610		20,647	
(21,548)	Benefits	(22,794)	9
(641)	Payments To And On Account Of Leavers	(1,463)	10
(22,189)		(24,257)	
(2,579)	Net Additions/(Withdrawals) from Dealings with Members	(3,610)	
(8,717)	Management expenses	(6,528)	11
	Return on Investments:		
8,195	Investment Income	13,314	12
33,717	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	45,423	14A
(426)	Taxes on Income	(283)	
41,486	Net Return on Investments	58,454	
30,190	Net Increase/(Decrease) in the Fund during the Year	48,316	
654,393	Opening Net Assets of the Scheme	684,583	
684,583	Closing Net Assets of the Scheme	732,899	

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

SCOTTISH BORDERS COUNCIL PENSION FUND NET ASSETS STATEMENT as at 31 March

2017/18 £'000		2018/19 £'000	Notes
685,681	Investment Assets	731,048	14
(742)	Investment Liabilities	-	14
684,939	Total net investment	731,048	
	Current Assets & Liabilities		
1,577	Current Assets	3,246	21
(1,933)	Current Liabilities	(1,395)	22
(356)		1,851	
684,583	Net Assets of the fund available to fund benefits at the period end	732,899	

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensioners)

The unaudited accounts were issued on 30 June 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

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 2018 (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 2016
- 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 2018/19 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 2018/19 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 2019. 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 pre 1 April 2009	Service post 31 March 2009	Services post 31 March 2015
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	Each year worked is worth 1/49 th x pensionable salary
Lump Sum	Automatic lump sum of 3 x annual pension. 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 pension may be exchanged for a lumps sum. The conversion rate is £12 of lump sum for each £1 surrendered	No automatic lump sum. Part of the pension can be exchanged for a lump sum. The conversion rate is £12 is paid for each £1 of pension given up.
	The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights		

Benefits from the 1 April 2015 which build up on a career average basis are revalued annually in line with rises in the Consumer Price Index.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension and lump sum on ill health or redundancy grounds and death and survivor benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2018/19 financial year and its position as at the 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (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 2018/19 - 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. Management fees also include transaction costs incurred by the managers, these will include stamp duty on property.

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 14c, 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 19, page 46).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life to act as AVC provider. AVC's are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

Accounting Standards that were issued but not yet adopted.

There are no accounting standards which have not yet been adopted.

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 2019 was £12.9m.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Hymans Robertson), 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 20 page 46. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2019 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 20)	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. Hymans Robertson 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 <p>Source – <i>Triennial Valuation 2017</i></p>
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 £186.9m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under- or overstated in the accounts.

6 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2019 which directly affect these accounts.

7 CONTRIBUTIONS RECEIVABLE

2017/18				2018/19		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,631	4,493	18,124	Normal	14,348	4,601	18,949
1,209	-	1,209	Special/Pension Fund Strain	406	-	406
	32	32	Additional Voluntary	-	30	30
14,840	4,525	19,365	Total	14,754	4,631	19,385

2017/18 £'000		2018/19 £'000
13,317	Administering Authority	14,121
746	Scheduled Bodies	738
5,302	Admitted Bodies	4,526
19,365		19,385

8 TRANSFERS IN

There were no group transfers in to the scheme during 2018/19 or 2017/18 and the total of £1.262m (2017/18: £0.245m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2017/18 £'000		2018/19 £'000
16,794	Pension Payments	17,967
4,128	Commutation and lump sum retirement benefits	3,948
626	Lump Sums death benefits	879
21,548		22,794

2017/18 £'000		2018/19 £'000
20,105	Administering Authority	20,958
295	Scheduled Bodies	373
1,148	Admitted Bodies	1,463
21,548		22,794

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £'000		2018/19 £'000
64	Refunds to members leaving service	110
577	Individual Transfers	1,353
641		1,463

11 MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
292	Administrative costs	391
8,192	Investment management expenses	5,848
233	Oversight and governance costs	289
8,717	Total	6,528

11(a) INVESTMENT MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
3,787	Management Fees	4,149
75	Performance Related Fees	102
65	Custody Costs	48
4,196	Transaction Costs	1,063
69	Other Fees	486
8,192	Total	5,848

12 INVESTMENT INCOME

2017/18 £'000		2018/19 £'000
4,459	Dividends from equities	4,595
1,233	Income from Pooled Investment vehicles	3,642
2,476	Income from Pooled Property Investment vehicles	4,824
27	Interest on Cash Deposits	253
8,195		13,314

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) – EXTERNAL AUDIT COSTS

In 2018/19 the agreed audit fee for the year was £20,580 (2017/18 £19,990). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2018 £'000		Market Value at 31 March 2019 £'000
	Investment Assets	
236,164	Equities	181,533
282,533	Pooled Investments	371,951
95,448	Pooled Property Investments	98,428
2,313	Private Equity/Infrastructure	21,450
49,685	Diversified Alternatives	51,678
6	Derivative Contracts	-
17,805	Cash Deposits	4,619
1,246	Investment Income Due	1,357
481	Amounts receivable for sales	32
685,681	Total Investment Assets	731,048
	Investment Liabilities	
(742)	Amounts payable for purchases	-
684,939	Net Investment Assets	731,048

Alternative asset portfolio at 31 March 2019

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £51.7m at 31 March 2019, 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

14 (A) RECONCILIATION OF MOVEMENT IN INVESTMENT AND DERIVATIVES

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	236,163	47,603	(113,686)	11,453	181,533
Pooled Investments	282,532	80,221	(18,963)	28,161	371,951
Pooled Property Investments	95,449	1,141	(35)	1,873	98,428
Private Equity/Infrastructure	2,313	19,229	(557)	465	21,450
Diversified Alternatives	49,685	-	(1151)	3,144	51,678
Derivative Contracts	6	62	(152)	84	-
	666,148	148,256	(134,544)	45,180	725,040
Other Investment Balances					
Cash Deposits	17,805			395	4,619
Amount receivable for sales	482			(1)	32
Investment Income due	1246			-	1,357
Amount Payable on Purchase	(742)			3	-
Net Investments	684,939			45,423	731,048

Significant Transactions during the year:

The Fund continued to implement the investment strategy approved on 13 September 2018. Equity funds have been reduced and invested into inflation linked assets such as infrastructure 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 2019. Each of the investments comprises units in a managed fund.

Value as at 31 March 2019	£'000
M&G Alpha Opportunities Fund	110,038
M&G Index Linked	45,511
Morgan Stanley Global Brands Fund	99,849
Blackrock – Long Lease property	60,629
LGT Crown SBC Segregated Portfolio	51,678
UBS Property	38,362
UBS UK Passive Equities	67,559

14 (B) – ANALYSIS OF INVESTMENTS

31 March 2018 £'000		31 March 2019 £'000
	Equities	
	UK	
48,188	Quoted	43,888
	Overseas	
187,924	Quoted	137,607
236,112		181,495
	Pooled Funds – additional analysis - Unquoted	
	UK	
34,622	Fixed Income Unit Trust	45,549
65,502	Equity Unit Trust	68,940
	Overseas	
86,029	Equity Unit Trust	99,850
64,570	Hedge Funds	110,038
	UK & Overseas	
49,686	Diversified Alternatives	51,678
31,809	Private Credit Funds	47,611
332,218		423,666
	Pooled Property Investments	
85,510	UK Pooled Property Investments	88,408
9,990	Overseas Pooled Property Investments	10,020
95,500		98,428
	Private Equity/Infrastructure	
1,478	UK Venture Capital	18,999
834	Overseas Venture Capital	2,451
2,312		21,450
	Investment Assets	
8	Derivative assets	-
17,807	Cash	4,619
1,246	Investment income due	1,357
481	Amounts receivable from sales	32
685,684	Total Investment Assets	731,048
	Investment Liabilities	
(2)	Derivative liabilities	-
(743)	Amounts payable on purchase	-
(745)	Total Investment liabilities	-
684,939	Net Investment Assets	731,048

14 (C) INVESTMENT ANALYSED BY FUND MANAGER

Investment Management was undertaken on behalf of the Fund during the financial year by 13 firms of investment managers, these are shown below. The fund has also during 2018/19 continued to make investments into infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2019 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-18				31-Mar-19	
£'000	%			£'000	%
63,853	9.3	UBS	Pooled Fund -UK Equities	67,559	9.2
39,975	5.8	Baillie Gifford	UK Equities	38,060	5.2
157,511	23.0	Baillie Gifford	Global Equities	148,348	20.2
50,877	7.4	Harris	Global Equities	-	0
86,029	12.6	Morgan Stanley	Pooled Fund - Global Equities	99,850	13.6
69,570	10.1	M&G	Pooled Fund - Diversified Income	110,038	15.0
34,621	5.1	M&G	Pooled Fund - Bonds	45,512	6.2
36,617	5.4	UBS	Pooled Fund -Property	38,463	5.2
59,761	8.7	Blackrock	Pooled Fund – Property	60,629	8.2
49,685	7.3	LGT	Pooled Fund - Alternatives	51,678	7.0
15,969	2.3	Partners Group	Pooled Fund – Private Credit	19,867	2.7
15,840	2.3	Permira	Pooled Fund – Private Credit	27,745	3.8
2,333	0.4	KKR	Infrastructure	2,407	0.3
1,478	0.2	Infrared	Infrastructure	1,646	0.2
-		Dalmore	Infrastructure	6,676	0.9
-		Brookfield	Infrastructure	1,522	0.2
-		Macquarie	Pooled Fund -Infrastructure Debt	9,199	1.5
820	0.1	Internal	Internally Managed Cash & Investments	1,849	0.6
684,939				731,048	

The benchmarks and performance targets for each manager as at the 31 March 2019 are contained in the Statement of Investment Principles published on the Pension fund website.

Fund Performance

The total Fund return for the year was 7.6% with a relative return over benchmark of 7.7%.

Over three years the Fund has generated an annualised return of 11.3% per annum, including the currency hedging, with a relative return over benchmark of 1.3% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

14 (D) STOCK LENDING

As at 31 March 2019 no stock had been released to a third party under a stock lending arrangement.

14 (E) PROPERTY HOLDINGS

The Funds investment in its property portfolio comprises of pooled investments with UBS and Blackrock. There are no directly owned properties.

15 ANALYSIS OF DERIVATIVES

The Funds approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to limits set out in their investment management agreements. The fund holds cash assets to allow for cashflow purposes. Fund managers will also on occasions hold forward currency contracts.

Settlements	Currency Bought	Local Value £000's	Currency Sold	Local Value £000's	Asset Value £000's	Liability Value £000's
Under 1 month	GBP	31	JPY	(5)		0
Open forward currency contracts at 31 March 2019						0
Net forward currency contracts at 31 March 2019						0
Open forward currency contracts at 31 March 2018						(2)
Net forward currency contracts at 31 March 2018						6

16 FAIR VALUE BASIS OF VALUATION

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.

16(A) FAIR VALUE HIERARCHY

Values as at 31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
Designated as fair value through fund account	504,489	33,631	186,919	725,039
Loans & receivables	5,977	32	-	6,009
Net Investment Assets	510,466	33,663	186,919	731,048
Values as at 31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
Designated as fair value through fund account	481,572	35,852	148,725	666,149
Loans & receivables	9,543	9,975	16	19,534
Financial liabilities at fair value through fund account	-	(744)	-	(744)
Net Investment Assets	491,115	45,083	148,741	684,939

16 (B) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018 £'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 2019 £'000
Alternatives	49,685	-	-	-	1,993	-	51,678
Overseas Equity	834	-	1,633	(257)	102	138	2,450
Private Credit	31,809	-	17,089	(2,544)	1,257	-	47,611
UK Property	64,919	-	-	-	1,262	-	66,181
Overseas Venture Capital	1,478	-	17,754	(300)	67	-	18,999
Total	148,725	-	36,476	(3,101)	4,681	138	186,919

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Purchases and sales during the year reflect the implementation of the revised Investment Strategy. Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account

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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives	4.6%	51,678	54,055	49,301
Overseas Equity	22.0%	2,450	2,989	1,911
Private Credit	8.0%	47,611	51,420	43,802
UK Property	12.0%	66,181	74,123	58,239
Overseas Venture Capital	12.0%	18,999	21,279	16,719
Total		186,919	203,866	169,972

17 (A) 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 2018				31 March 2019		
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			
236,163	-	-	Equities	181,533	-	-
282,532	-	-	Pooled Investments	371,951	-	-
95,449	-	-	Pooled Property Investments	98,428	-	-
2,313	-	-	Infrastructure	21,450	-	-
49,685	-	-	Diversified Alternatives	51,678	-	-
8	-	-	Derivative Contract	-	-	-
-	17,805	-	Cash	-	4,619	-
1,246	-	-	Other Investment balances	-	1,357	-
481	-	-	Debtors	-	32	-
667,877	17,805	-		725,040	6,008	-
			Financial Liabilities			
-	-	-	Derivative Contract	-	-	-
-	-	-	Other investment balances	-	-	-
-	-	(743)	Creditors	-	-	-
-	-	(743)		-	-	-
667,877	17,805	(743)	Total	725,040	6,008	-
684,939				731,048		

17 (B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018 £000		31 March 2019 £000
	Financial assets	
28,341	Designated at fair value through profit & loss	45,103
96	Loans & receivables	398
	Financial Liabilities	
(11)	Fair value through profit & Loss	78
(411)	Financial liabilities at amortised costs	(156)
28,015	Total	45,423

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

18 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 23. 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 %
UK Equities	20.2
Global Equities	20.5
UK Bonds	11.2
Property	9.9
Alternatives	13.2
Cash	0.9

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 19 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	105,619	20.2	126,933	84,305
Global Equities	248,198	20.5	299,078	197,317
UK Bonds	45,512	11.2	50,617	40,406
Property	99,092	9.9	108,943	89,242
Alternatives	230,778	13.2	261,311	200,246
Cash	1,849	0.9	1,866	1,832
Total Assets	731,048		848,748	613,348

*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 2018 and 31 March 2019 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 2018 £'000	At 31 March 2019 £'000
Cash and Cash Equivalents	17,807	7,198
Fixed Interest Securities		-
	17,807	7,198

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 19 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	7,198	72	(72)

(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 2019:

Currency exposure by asset type	As 31 March 2019 £'000
Overseas Equities	237,457
Diversified Bonds	110,038
Alternatives	51,678
Property	10,020
Venture Capital	2,451
Total	411,644

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 19 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	632	10.61	700	566
Brazilian Real	3,038	15.80	3,518	2,558
Canadian Dollar	1,363	9.50	1,492	1,234
Danish Krone	1,529	8.44	1,658	1,400
EURO *	26,539	8.46	28,784	24,294
Hong Kong Dollar	7,512	9.20	8,203	6,820
Japanese Yen *	8,791	12.65	9,903	7,679
Norwegian Krone	1,611	10.39	1,779	1,444
South African Rand	5,861	15.09	6,745	4,976
Swedish Krona	1,840	10.31	2,029	1,650
Swiss Franc	2,727	10.98	3,027	2,428
US Dollar	139,430	9.35	152,470	126,390
Total Currency *	200,873		220,308	181,439

* 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 2019, including current account cash, was £2.5m (31 March 2018: £0.64m). This was held with the following institutions:

	Rating	Balance at 31 March 2018 £'000	Balance at 31 March 2019 £'000
Money Market Accounts			
Aberdeen Standard	AAA	5	-
Standard Life	AAA	5	-
Blackrock	AAA	5	-
Federated	AAA	5	-
Bank Current Accounts			
Bank of Scotland	A+	620	2,580
Northern Trust	AA		4,618
Total		640	7,198

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 2019, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2018, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate.

The Funding Strategy Statement

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 13 June 2019 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 1 with the full report available on the Scottish Borders Council Pension Fund website) and was completed during the financial year 2017/18 by the then 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.

20 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 2017 £m	31 March 2018 £m	31 March 2019 £m
Present value of the defined benefit obligations	(907)	(844)	(941)
Fair Value of Fund Assets* (bid value)	653	685	733
Net Asset/(Liability)	(254)	(159)	(209)

The obligations figure above include a £7m for the estimated impact the recent McCloud judgement which relates to age discrimination arising from public sector pension scheme transition arrangements. The full impact of the judgement are not fully known at this time.

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 2017	At 31 March 2018	At 31 March 2019
	% p.a.	% p.a.	% p.a.
Discount Rate	2.7	2.55	2.4
Pay Increases – Long Term	3.7	3.3	3.5
Pension Increases	2.7	2.3	2.5

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.

21 CURRENT ASSETS

Current Assets	As 31 March 2018 £'000	As 31 March 2019 £'000
Short term debtors		
Contributions Due – Employees	335	92
Contributions Due - Employers	985	294
	1,320	386
Transfer value receivable (joiners)	53	193
Sundry Debtors	-	10
Prepayments	-	78
Total	1,373	667
Cash Balances		2,579
Total	1,373	3,246

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2018 £'000	As 31 March 2019 £'000
Transfer value payable (joiners)	93	499
Sundry Creditors	1,500	565
Benefits payable	340	331
Total	1,933	1,395

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

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 2019 was £1.194m (2017/18 £1.104m). During the year contributions in totalled £0.283m, while payments out of the AVC fund totalled £0.253m. 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.

24 AGENCY SERVICES

There are no agency services agreements in place.

25 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £0.62xm (2018: £1.98m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2018: £0.004m). The Council charged the Pension Fund £0.263m 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	2018 £'000	2019 £'000
Due (to)/from Scottish Borders Council	1,037	(343)

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2018/19. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

25 (A) 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 2018 £000's		31 March 2019 £000's
87	Short-term benefits	89
-	Post-employment benefits	-
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
89	Total	91

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(A) 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.

26(B) CONTINGENT LIABILITES

GMP Equalisation

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation however due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on the Fund at this time.

GMP Reconciliation

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. The Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect BMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level.

27 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Chief Financial Officer on 25 June 2019. Events taking place after this date are not reflected in the financial statements or notes.

On 20 December 2018, the Court of Appeal upheld a claim from firefighters and a group of over 200 judges that changes made to their pension scheme were discriminatory based on a member's age (the McCloud case). The government's right to appeal this decision was denied in June 2019 meaning that this legal ruling is now expected to have an impact on other public sector workers who have also seen similar changes to their pension schemes. Although this does not impact on the primary financial statements of the Fund, the Fund's actuaries have estimated that the overall impact of this will be to increase the actuarial present value of promised retirement benefits of the Fund by £6.8 million to £942million.

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

Report on the audit of the annual accounts

Opinion on annual accounts

I certify that I have audited the annual accounts in the annual report and accounts of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying annual accounts:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 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 2018/19 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)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. 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 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.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Financial Officer and Scottish Borders Council Audit and 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 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 financial statements

My objectives are to obtain 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 on the basis of 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 report

The Chief Financial Officer is responsible for the other information in the annual report. 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

Opinions on 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 2018.

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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

September 2019

● **Scottish Borders Council Pension Fund**
Actuary's Statement as at 31 March 2017

Introduction

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 2019/20 to 2021/22
- Actuarial Valuation Statement 2017

Fund Advisers

Actuaries:	Hymans Robertson
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 Macquarie

Additional Voluntary Contributions (AVC) Managers: Standard Life

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

Pensions Team	Telephone 01835 – 825052/3
	E-mail pensions@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.

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

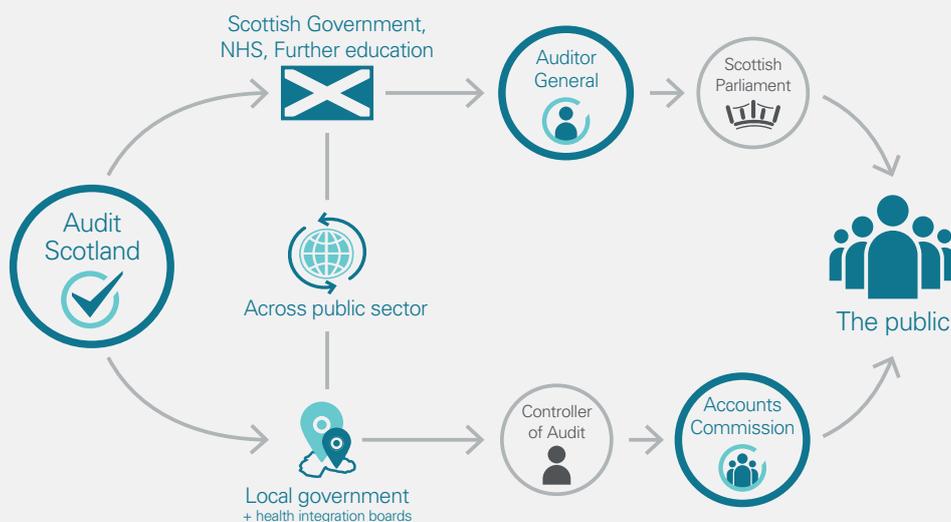
Fraud and irregularity update 2018/19

Prepared for public bodies and auditors
July 2019

Who we are

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

- **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.
- 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.



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.

Contents

Summary	4
Part 1 Background	6
Part 2 Examples of fraud and irregularities reported in 2018/19	8
Appendix Audit methodology	16

Summary



Key messages

- External auditors have reported a variety of fraud and irregular activities across a range of Scottish public bodies during 2018/19.
- During 2018/19, external auditors reported 17 cases of frauds and irregularities valued at almost £674,000. The value of reported fraud and irregularity is small compared to Scottish public sector expenditure.
- Common control weaknesses have contributed to the fraudulent and irregular activity reported during 2018/19.

Recommendations

- Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action.
- Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report.

Background

1. This report aims to share information about cases where internal control weaknesses in public bodies have led to fraud and irregularities, to help prevent similar circumstances happening again. It is based on information reported to Audit Scotland about significant frauds and other irregularities in public bodies during 2018/19. The level of fraud and irregularity reported is small compared to Scottish public sector expenditure of £44 billion.

2. A key objective of public audit is to deter fraud. The CIPFA [Code of Practice on Managing the Risk of Fraud and Corruption](#) explains that fraud can be prevented through the implementation of appropriate and robust internal control measures that safeguard assets. It follows that weaknesses in internal control increase the risk of fraud.

3. International Standards of Auditing (ISAs) include certain requirements relating to the auditor's consideration of fraud. Audit Scotland's [Code of Audit Practice](#) sets out additional responsibilities of public sector external auditors in respect to fraud, error and irregularities.

4. Appointed auditors in Scottish public sector bodies are required to consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected, and that material payments are made correctly.

5. Historically, auditors of local government bodies and non-departmental public bodies (NDPBs) have provided Audit Scotland with details of cases of fraud and other irregularities discovered in those bodies. During 2018/19, we extended this to the college sector.¹ The focus in reporting cases is on highlighting fraud and irregularities caused by weaknesses in internal control and then sharing the learning from these reported cases in order to prevent similar circumstances from occurring.

6. Public bodies are encouraged to consider whether the weaknesses in internal control that facilitated cases in this report may also exist in their own arrangements and take the required corrective action.

7. Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds highlighted in this report.

8. The cases in this report include instances where fraud is merely suspected. Such cases are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

About this report

9. This report has two parts:

- Part 1 ([page 6](#)) sets out some key factors that can lead to fraud.
- Part 2 ([pages 8 to 15](#)) sets out examples of the various different categories of fraud and irregularity reported during 2018/19 and the control weaknesses which have contributed to these cases.

10. The cases included in this report are based on reviewing documents and returns from external auditors. Our audit methodology is in the [Appendix \(page 16\)](#).

¹ NHS bodies report fraud and irregularities to NHS Scotland's Central Fraud Service and central government bodies report cases to the Scottish Government.

Part 1

Background



The fraud triangle

11. The fraud triangle is a well-used model to help explain why individuals may commit fraud (Exhibit 1). It suggests that the following are key factors:

- the individual has the opportunity – this may be through weak internal controls such as a lack of segregation of duties
- the individual is under some pressure – this may be personal financial pressures, or through addictions
- the individual can rationalise and justify the fraudulent behaviours in their mind – this may be the belief that they will pay the funds back or that they have been working hard and are due to be compensated.

Fraud is the misappropriation of assets involving deception to obtain an unjust and illegal financial advantage

Exhibit 1

The fraud triangle



Source: Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30.

12. Auditors and management should be aware of key signs in financial records that may indicate fraud. These include:

- an increase in stock or equipment going missing or being written off
- missing documentation to support transactions or contracts
- multiple payments and duplicate payments
- frequent customer complaints about an employee or service, eg the good or service received is less than was requested, or payments are required in cash
- excessive adjustments or 'corrections' through the ledger.

13. There are also behavioural 'red flags' that are often witnessed when an employee is committing fraudulent activities. Organisations should have systems in place to identify and report any of these behaviours if they appear. These include employees:

- living beyond their means
- getting into financial difficulties or having addictions
- not taking leave
- rewriting records
- being unwilling to share their duties
- developing inappropriate close relationships with customers and suppliers.

14. Auditors continue to engage with audited bodies in order to identify and report fraud and irregularities. The aim is to identify and share events leading to control weaknesses and losses in order to aid learning and hopefully prevent similar events occurring in other audited bodies.

15. Audit Scotland's [counter-fraud hub](#) is available on our website and includes details of all of our counter-fraud work, for example, on the National Fraud Initiative, as well as details of the partners we work with.

Management should consider whether the weaknesses in internal control that facilitated cases in this report exist in their own arrangements

Part 2



Examples of fraud and irregularities reported in 2018/19

Key messages

- Fraud and irregularities reported during 2018/19 fall into the following key categories:
 - Six cases of fraud and irregularity involving expenditure have been reported. All six cases, amounting to £82,000, were the result of weaknesses around changing bank details of suppliers.
 - Auditors reported four cases of fraud involving income totalling £36,500.
 - Two cases of fraud involving payroll have been reported totalling £10,000.
 - Three cases of fraud involving theft and totalling £45,000 have been reported.
 - Two cases of misuse of assets fraud totalling up to £500,000 have been reported.
- Common control weaknesses were identified across organisations where fraudulent or irregular activity was identified.

Various types of fraud and irregularities were identified during 2018/19

16. The types of reported fraud and irregularities communicated by audit teams to Audit Scotland in 2018/19 include:

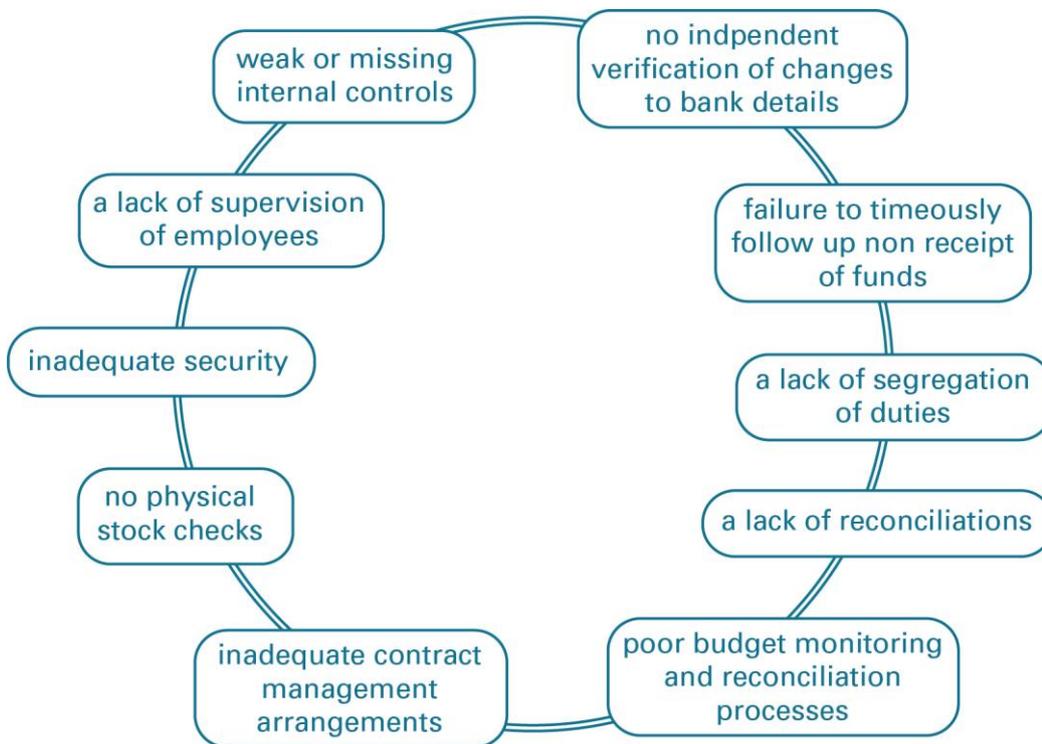
- expenditure frauds, where an organisation has incurred additional expenditure because of fraud
- income frauds, including the misappropriation of cash
- payroll overpayments or misappropriations
- theft of assets
- the misuse of assets for personal gain.

This report focusses on fraud caused by weaknesses in internal control

17. Common control weaknesses have contributed to the fraudulent and irregular activity reported by external auditors ([Exhibit 2, page 9](#)).

Exhibit 2

Common control weaknesses



Source: Audit Scotland

Expenditure

18. Expenditure frauds relate to cases where a body has incurred additional expenditure because of fraud, eg due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

Change of bank details

19. Third parties defrauded £82,000 from six public sector bodies by re-directing payments intended for legitimate suppliers.

Key features

The organisations received emails which appeared to be from valid suppliers. The legitimate email addresses had either been hacked or the emails originated from an address very similar to the legitimate email address.

Emails from the fraudulent email addresses requested that bank details were amended. Subsequently a payment was made to the amended bank account.

It was later identified, often when the genuine supplier queried non-receipt of funds, that the new bank details were false.

One organisation was able to recoup £12,000 by promptly contacting Police Scotland and the bank as soon as the fraud was uncovered.

Weakness: no independent verification of changes to bank details

Weakness in internal control

The frauds were possible as:

- no independent verification of the change was undertaken to confirm the change of bank account, eg a phone call to the supplier
- subtle differences from the usual email address were not spotted.

Source: Audit Scotland auditor returns

Income

20. Income frauds relate to cases where a body's income has been misappropriated, eg cash takings being re-directed, or invalid refunds processed.

School fundraising

21. Over £6,000 of cash collected at a school fundraising event was misappropriated by a third party.

Key features

A council organised a fundraising event with one of its suppliers. One of the supplier's employees collected the money but failed to pay the funds to the school.

The head teacher identified that the cash had not been received six months after the event and notified the council's counter-fraud team.

The perpetrator was reported to their employer and the police. £1,200 of the funds have so far been recovered.

Weakness in internal control

The fraud was facilitated by a failure to timeously follow up non-receipt of funds.

Source: Audit Scotland auditor returns

Weakness:
failure to
timeously follow
up non-receipt of
funds

Admission ticket sales

22. Perpetrators defrauded £12,000 from an NDPB through fraudulent ticket sales.

Key features

The perpetrators purchased several tickets for overseas events using stolen credit card details, and then re-sold the tickets. The fraud was not identified until the genuine card holders queried the transactions and requested refunds. A subsequent review identified an unusual increase in refunds for disputed card transactions.

The NDPB has now moved to an enhanced card payment system. The IP addresses used for the fraudulent ticket sales have also been blocked.

Weakness in internal control

The fraud was facilitated by a card payment system which did not include secondary authentication for payments.

Source: Audit Scotland auditor returns

Weakness: the
card payment
system did not
include
secondary
authentication for
payments

Fraudulent refunds

23. An employee in a council's environmental services department defrauded £12,500 from the council by failing to bank income and by processing false refunds.

Key features

The employee legitimately sold refuse sacks to residents, but subsequently processed a refund and retained the cash. The individual also identified council tax and housing rent accounts that were in credit, processed a refund for the overpayment, and again retained the cash.

No issues were initially detected as the cash recorded in the ledger agreed to the cash in the till.

The fraud was identified following a review of transactions by the sales ledger team, who identified that it was unusual to expect refunds for refuse sacks. Further investigation identified that refunds were being processed by the same officer for council tax and housing rents payments.

The council has now introduced a daily review of all refunds processed. Council tax and housing rent account credit balances are now being identified and highlighted to customers.

Weakness in internal control

The fraud was facilitated by the absence of regular reviews to highlight unusual items as well as inadequate segregation of duties.

Source: Audit Scotland auditor returns

Weakness: an absence of regular reviews of ledger entries and a lack of segregation of duties

Failure to bank income

24. A housing officer defrauded £6,000 from a council by failing to bank income.

Key features

The officer did not record cash income on income records. The main control was to reconcile the income records to the bank statement, and therefore the missing income was not timeously detected.

The fraud was identified when a finance officer discovered that expected income was not in the relevant bank account. Following investigation, it was established that this income had not been banked and that the issue went back several years.

The council has reviewed its system controls to enable weaknesses to be identified and addressed.

Weakness in internal control

The fraud was possible due to a failure in budget monitoring processes and the income reconciliation process relying upon income details being recorded in the income records.

Source: Audit Scotland auditor returns

Weakness: poor budget monitoring and reconciliation processes

Payroll

25. Payroll frauds relate to cases where an organisation's payroll has been misappropriated, eg employees working elsewhere while claiming to be unfit.

Working while claiming to be unfit for work

26. An occupational therapist defrauded £8,000 from a council by falsely claiming to be unfit for work.

Key features

The occupational therapist was on sick leave for ten months. The fraud was identified when colleagues advised the manager that the size of the employee's private business had expanded significantly during the period of absence. Covert surveillance by the council's counter-fraud team confirmed that the employee was working on a self-employed basis during their period of sickness absence from the council.

Recovery action is in progress. The employee has been dismissed and the case has been reported to the perpetrator's professional institute.

The council had controls in place to prevent this type of fraud, which included requiring employees to seek written permission if they wish to carry out other work whilst on sick leave and regular reviews for employees on long-term sickness absence.

However, despite having these controls in place, the employee was still able to commit the fraud because the employee withheld the fact that they were carrying out outside work and falsely exaggerated the symptoms of their illness at sickness absence reviews.

Source: Audit Scotland auditor returns

Diversion of salary payments

27. A college received a fraudulent request to change employee details for two employees from hacked email accounts. This led to a loss of £2,000.

Key features

The college's payroll team paid the salary of the two employees into the fraudsters' bank accounts instead of the employees' bank accounts. The fraud was uncovered when one of the employees alerted the payroll accounting officer about the non-payment of their salary. In one case, emailed payslips appear also to have been misdirected, revealing personal details.

Weakness in internal control

Payroll did not seek a confirmation from the staff, either in person or on the phone, prior to making a change to bank account details.

Source: Audit Scotland auditor returns

Weakness:
failure to obtain confirmation of bank detail changes from employees

Theft

28. Thefts of assets by third parties can be considered fraud if they are facilitated by poor security arrangements, eg theft of equipment or stores.

Embezzlement of care home residents' funds

29. The owner of a council-funded care home defrauded £38,000 from residents.

Key features

The owner of a council-funded care home was not managing residents' funds through individual bank accounts, as required by the contract with the council, so that they could hide the fraudulent transactions.

A council employee responsible for managing the contract initially identified that residents were having financial difficulty and cash flow problems. A subsequent investigation of residents' funds identified unusual bank transfers with a lack of supporting information.

The business owner was reported to the Procurator Fiscal and is awaiting trial but has repaid the funds.

Weakness in internal control

The alleged fraud was facilitated by inadequate contract management arrangements.

Source: Audit Scotland auditor returns

Weakness:
inadequate
contract
management
arrangements

Theft of school laptops

30. An unknown third party allegedly stole laptops valued at £7,000 from a school.

Key features

The equipment was allegedly stolen from a secure storage area within the school. The theft was discovered when an employee went to retrieve the equipment prior to use. The matter has been reported to the police.

Weakness in internal control

An internal audit investigation identified physical control weaknesses including:

- key boxes not being locked
- annual asset returns not being completed
- computer equipment not being security marked.

Source: Audit Scotland auditor returns

Weakness: no
physical checks
of stock and poor
security

Theft of prescription drugs

31. An employee stole prescribed drugs from a locked medicine cabinet in a council-run care home and replaced them with paracetamol.

Key features

Internal controls identified that the drugs had gone missing on a particular shift.

Following investigation, a member of staff admitted the theft and resigned. The individual was charged by Police Scotland and received a six-month suspended sentence.

Weakness in internal control

The theft was possible as the keys to the cabinet were used by a number of staff on the shift.

Source: Audit Scotland auditor returns

Weakness:
inadequate
security of
prescription drugs

Misuse of assets

32. Misuse of assets relates to fraud where fraudsters use the assets of a public body for personal gain, eg the use of social housing by people who have no rights to occupy the accommodation

Misuse of vehicles

33. Up to £500,000 was lost to a public body when employees used the body's assets for their own personal gain.

Key features

Employees used the body's vehicles to conduct unauthorised activities for cash payments that required inappropriate use of the vehicles and employee time. The misuse of the vehicles for the drivers' personal gain was discovered when a member of the public called the body's call centre to express his concerns regarding the employees' activities. These concerns were also substantiated by a whistle-blower. Four employees have left their employment as result of these activities. The body is currently assessing opportunities for recovery of the lost revenue.

Weakness in internal control

An internal investigation identified the following weaknesses:

- too much flexibility given to the drivers in scheduling their work
- a lack of monitoring of the driver's activities and the vehicles movements.

Source: Audit Scotland auditor returns

Weakness: a
lack of
supervision of
employees and
employees
having
inappropriate
flexibility in
respect to work
schedules

Tenancy fraud

34. A council tenant was sub-letting their home.

Key features

The fraud was identified following receipt of an allegation of illegal sub-letting. An investigation identified that the tenant was sub-letting the property without proper authority. The property was recovered by the council.

Source: Audit Scotland auditor returns

Appendix

Audit methodology

Audit Scotland's [Code of Audit Practice](#) sets out the responsibilities of audit bodies and external auditors in respect to fraud, error and irregularities. The Code states that:

“Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

International Standards on Auditing (ISAs) include certain requirements relating to the auditor's consideration of fraud. The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.

Appointed auditors should consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected and that material payments are made correctly.

Audit work would include reviewing, concluding and reporting on areas such as: whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Appointed auditors are required to report information on cases of fraud and irregularities in accordance with guidance from Audit Scotland. Appointed auditors should also review information about frauds disseminated by Audit Scotland and consider whether any action is required in relation to their own audit appointments.”

This report is informed by information provided by external auditors during 2018/19 in their fraud and irregularity returns to Audit Scotland.

External auditors are required to report frauds (or suspected frauds) where they are caused or facilitated by weaknesses in internal controls at local authorities or non-departmental public bodies. We extended this to the college sector in 2018/19.

Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significant due to the nature of the activity.

Auditors of local authorities are not required to report cases of fraud perpetrated by claimants, for example, housing benefit claimants, unless the fraud was facilitated by the collusion of local authority staff or otherwise by weaknesses in internal control.

The cases included in this report are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

NHS Scotland Counter Fraud Services (CFS) collates and investigates all cases of reported fraud and irregularity in NHS Scotland. CFS deals with the prevention, detection and investigation of fraud, embezzlement, theft, corruption and other irregularities against NHS Scotland.

The Scottish Government collates and ensures appropriate action is taken for all cases of reported fraud and irregularity in the Scottish Government and other central government bodies.

Fraud and irregularity update

2018/19

This report is available in PDF and RTF formats, along with a podcast summary at:

www.audit-scotland.gov.uk 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500

or info@audit-scotland.gov.uk 

For the latest news, reports and updates, follow us on:



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

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

ISBN 978 1 913287 04 7

INTERNAL AUDIT WORK TO JULY 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 September 2019

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 1 April to 2 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. During this period a total of 5 Final Internal Audit Reports have been issued. There were 10 recommendations made associated with three of the reports.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Notes the final assurance reports issued in the period from 1 April to 2 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
 - b) 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 2019/20 was approved by the Audit and Scrutiny Committee on 11 March 2019. Internal Audit has carried out the following work in the period from 1 April to 2 August 2019 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council’s risk management, internal control and governance.
- 3.2 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

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Performance Management: Local Government Benchmarking Framework (LGBF)
 - Members Allowances
 - Building Standards Emergency Works
 - Looked After Children
 - ICT Business Systems
- 3.4 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

- 3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Attendance Management	Draft Report Issued 6 August 2019
EU Funded Programmes (LEADER and EMFF)	Testing underway
Adult Social Care Services - Learning Disability Service	Audit Assignment Issued
Audit Area	Audit Stage

SB Contracts	Planning underway
Homelessness	Planning underway
Jedburgh Conservation Area Regeneration Scheme (CARS)	Planning underway

Internal Audit Consultancy and Other Work

- 3.6 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:
- Engagement in meetings of programmes and projects involving major change (Fit for 2024, Corporate Landlord Model, Public Protection Unit, Contract Management Framework) as a critical friend to provide internal challenge and quality assurance.
 - Providing advice for policy development (School Fund, Purchase Cards).
 - Follow up of previous recommendations and review of Carbon Reduction Commitment last submission for the present programme.
 - Learning and development through attendance at Chief Auditors Group, Computer Audit Sub-Group, and Data Analytics training with Midlothian Council as part of shared services.

Recommendations

- 3.7 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 attention of senior management.

Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	0
Medium	9
Low	1
Sub-total reported this period	10
Previously reported	0
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

4 IMPLICATIONS

4.1 Financial

There are no costs attached to any of the recommendations in this report.

4.2 Risk and Mitigations

- (a) During the development of the Internal Audit Annual Plan 2019/20 and at the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (b) If audit recommendations are not implemented, there is a greater risk of loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

4.3 Equalities

There are no direct equalities and diversities as a result of this report.

4.4 Acting Sustainably

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

4.5 Carbon Management

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

4.6 Rural Proofing

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

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

5 CONSULTATION

- 5.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team, the Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and the Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 13 May 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management: Local Government Benchmarking Framework (LGBF)</p> <p>No: 016/013</p> <p>Date issued: 09 August 2019 Draft; 10 September 2019 Final</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>The LGBF brings together a wide range of information about how all Scottish Councils perform in delivering better services to local communities. The data is from all Scottish Councils which represent very diverse communities in terms of geography, population, deprivation levels and community needs.</p> <p>We tested the 11 PIs figures for the 2018/19 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 found anomalies with data provided for 5 of the indicators, some of which were data transcribing issues, incorrect calculations, or where data provided was not up to date. All queries raised were subsequently corrected and the LGBF return was updated prior to submission to the Improvement Service by the 30 August 2019 deadline. Previous recommendations have been implemented to improve Live Borders data collection and reporting methodology for Culture & Leisure PIs. Internal Audit considers the figures provided and reported in the LGBF for 2018/19 to be reasonable and accurate. The individual data collection methods applied by the Services are suitable and appropriate.</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. Our review has identified where better validation is required in specific areas, and the relevant Service areas are aware of that required improvement.</p>	0	2	1	<p>The draft Internal Audit Report findings and recommendations were discussed by Corporate Management Team on 14 August 2019 alongside the associated draft LGBF return prior to submission.</p> <p>Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed the implementation of recommendations within timescales appropriate to the standard for recommendation risk ratings.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management: Local Government Benchmarking Framework (LGBF)</p> <p>(cont'd)</p>	<p>We made the following recommendations to improve monitoring of performance indicators in general and validation of performance indicators in specific areas:</p> <ul style="list-style-type: none"> • Performance Management should be included as an agenda item on Department Management Team meetings to ensure that both data and insight are recorded and reported within timescales requested by the Performance Team for performance reporting purposes. As system and organisational developments continue during 2019/20 there is a need to ensure performance monitoring and reporting is accurate, robust and provided on time. (M) • Cost of Collecting Council Tax (Corp 4) Staff should ensure that they understand and are able to explain the calculations they have made. (L) • % of operational buildings which are suitable for their current use & proportion of internal floor space which is in a satisfactory condition (Corp Asset 1 & 2) A reconciliation should be carried out to ensure that information migrated from Technology Forge Facility to Technology Forge Cloud is accurate and correct. (M) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Members Allowances</p> <p>No: 022/013</p> <p>Date issued: 20 August 2019 Draft; 10 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess whether adequate controls are in place to ensure members' remuneration, allowances and expenses are accurate; are paid correctly and timely, and disclosed in accordance with regulations.</p> <p>It is a requirement of The Ethical Standards in Public Life etc. (Scotland) Act 2000 that elected members' remuneration and expenses are made public. The Democratic Services team provides advice and guidance to the elected members regarding their remuneration, expenses and allowances.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • There is compliance with the relevant guidance from Government on the setting of remuneration rates for Councillors. • The required information is published. • There is a thorough programme of communication and training with Councillors to ensure that all relevant interests are declared promptly. <p>For all samples we examined, we were able to reconcile the published amounts with the sum of individual monthly claims. We are satisfied that the amounts published are correct and that claims were being made within the required timescales.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement such as: the transition from paper-based forms for mileage and expenses claims to using Business World system to automate the process; and to ensure Business World system reports are accurate and can be relied upon for monitoring purposes. There are Management Actions underway to address these identified areas of improvement.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Discussions are ongoing on the automation of the process to ensure that disclosure requirements continue to be met using the Business World system.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Building Standards Emergency Works</p> <p>No: 153/005</p> <p>Date issued: 09 August 2019 Draft; 10 September 2019 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to ensure adequate controls are in place for emergency works income and expenditure including credit control and performance reporting.</p> <p>Where a building poses a danger to members of the public the Council has a duty under the Building (Scotland) Act 2003 to either immediately carry out (Section 29 cases), or urgently carry out (Section 30 cases), the work necessary to remove that danger (including demolishing the building). In respect of urgent action, the owner(s) must first be notified by serving a notice under Section 30 allowing the opportunity to carry out the necessary work. If this fails, the Council will take action and will reclaim the costs and expenses from the owner(s).</p> <p>In the period 1 January 2018 to 30 June 2019 a total of 71 Section 29 and 19 Section 30 cases were recorded in the Uniform system; of which 12 S29 cases and 5 S30 cases were randomly selected for audit testing. As at 31 July 2019, a total of £333k had been invoiced and the amount outstanding was £162k.</p> <p>While the assessment of premises and the instruction of work to protect the public from dangerous buildings is good, our testing highlighted issues with the oversight of the end-to-end process, completeness of recorded information in the Uniform system, efficiency and effectiveness of invoice raising and debt collection monitoring, and a lack of documented procedures for write-offs. Performance reports are made quarterly to Scottish Government, and they are available on the Council's website. Our previous recommendation to enhance performance reporting to Senior Management has not been sustained.</p> <p>We consider that we are able to provide 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.</p>	0	5	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed to implement the recommendations.</p> <p>Some improvements have already been made since the draft report was issued and a 'Building Standards Action Plan – Audit – Emergency Works' has been created to review processes from start to finish, and put revised procedures in place that will address the recommendations in the report with full implementation by March 2020.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Building Standards Emergency Works</p> <p>(Cont'd)</p>	<p>We made the following recommendations:</p> <ul style="list-style-type: none"> • The master suspense spreadsheet should be improved and reconciled to both Uniform and Business World systems. More checks are required to ensure that all costs are invoiced. (Medium) • All information relating to work carried out should be recorded in the Uniform system. (Medium) • Invoices should display: the Uniform reference number; the property address; and the dates the work was carried out. Notes of how amounts for invoices are raised should be retained especially when split across shared properties. Unpaid invoices should be regularly scrutinised. Regular monitoring of income should take place. (Medium) • The write off procedure should be documented. Information should be recorded to support cases written off including the reasons for write off and the actions taken. (Medium) • Reports should be made available to Senior Management on the number of cases, the amount invoiced and the amount not yet received. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Looked After Children</p> <p>No: 165/002</p> <p>Date issued: 26 August 2019 Draft; 13 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure that governance processes are appropriate to meet service delivery needs for Looked after Children and that adequate controls are in place which evidence sound budgetary control.</p> <p>The Looked after Children service is responsible for children who cannot – for whatever reason – live with their families. The service aims to support children living with relatives, family, friends and foster families, or in children’s homes and units. The Children and Young People service manage the cases of 201 children (May 2019). This is a decrease (212 cases in May 2018).</p> <p>No formal process exists for the periodic review and update of policies and procedures. While review and revision does take place, it appears to be ad hoc rather than planned. Testing of case management identified that not all sample cases had been reviewed within the statutory timescales. We are satisfied that the service is taking appropriate measures to monitor closely the budget position. Management had considered some alternative measures to meet service need at lower cost.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Improvements are required to ensure objectives are met.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • The process of ensuring (i) policies reflect current legislation and (ii) procedures reflect those policies, needs to be more formalised. This should form part of the remit of a senior officer forum which should check that policies are up to date and that procedures correctly reflect those policies. (Medium) • Processes need to be reviewed to ensure that the statutory requirement is met that all placements are reviewed 6 months after they commence and every 6 months thereafter (Medium) 	0	2	0	Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed actions for implementation with target dates that are within standard timescales linked to the recommendations’ risk ratings.

Report	Summary of key findings and recommendations	Recommendations	Status
--------	---	-----------------	--------

		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Business Systems</p> <p>No: 233/024</p> <p>Date issued: 27 August 2019 Draft; 13 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to establish that governance and processes are in place to review and redesign computer based systems/business applications outwith the CGI Contract to ensure they are fit for purpose to support service delivery.</p> <p>A significant proportion of the systems utilised by the Council are managed outwith the core contract for ICT Services with CGI. They are managed within operational Services. A representative sample of systems was chosen for testing, as follows:</p> <ul style="list-style-type: none"> • Technology Forge - Asset Register • Routewise - Passenger Transport planning, costing and recharging tool • Servitor - Roads service job costing system <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place for each of the three systems for: physical security, backup and business continuity; data transfer and reconciliation with Business World system; periodic review of whether systems deployed remain fit for purpose and represent good value to meet requirements; data protection arrangements; and management of risk.</p> <p>There is some scope for improvement such as: consider an automated interface between Routewise and Business World systems to address the current time-consuming manual process; and develop a strategy for the future deployment of Routewise system which is affordable within budget constraints to respond to conclusions made by Internal Audit (August 2017) and by External Consultants (November 2018) that the system is no longer fit for purpose. There are Management Actions underway to enhance efficiency and effectiveness of controls and to ensure ICT systems represent good value to meet service requirements. Progress needs to be made to address the identified risks.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Discussions are ongoing on the consideration of an automated interface between Routewise and Business World systems and the development of a strategy for the future deployment of Routewise system.</p>

This page is intentionally left blank