

Scottish Borders Council

annual accounts

for the year to 31 March 2016



Scottish Borders Council

Annual Accounts 2015/16

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Foreword by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2016. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance of the Council in the financial year 2015/16.

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

- what we do as a Council;
- what our strategy and priorities are;
- how we are organised to deliver priorities;
- our financial position for 2015/16;
- key aspects of our performance during 2015/16; and
- our plans for the future.

Highlights of 2015/16

Against a very difficult financial background, the Council has achieved a great deal during 2015/16 and I am proud, along with all of our Elected Members and Officers, to have:

- ✓ Supported the opening of the Borders Railway in September 2015 which presents significant opportunities to create long term economic and social benefits for the Scottish Borders
- ✓ Achieved 85% of planned efficiency savings on a permanent recurring basis
- ✓ Delivered £260.2m of revenue spending within budget
- ✓ Delivered Capital Investment of £45m in schools, flood protection, roads, lighting and other assets
- ✓ Secured another successful year of operation with Bridge Homes LLP with 23 new homes delivered
- ✓ Secured a successful first year of operation with SBCares LLP delivering business plan objectives
- ✓ Signed a major contract to transform our IT services with our new IT partner CGI

Our Plans for 2016/17

The next year presents many opportunities for the Council including:

- the first full year of the Integration Joint Board with NHS Borders for Adult Health & Social Care Services
- the launch of the new integrated Sport and Culture Trust (Live Borders)
- redesign of the Council's IT service with CGI during 2016/17 which will include the provision of a new Enterprise Resource Planning (ERP) solution to replace current Finance and HR systems

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

2016/17 represents the 4th year of the original 5 year revenue Financial Plan established in 2013/14. During this period from 2013/14 to 2015/16 the Plan delivered cumulative savings of £28.608m alongside significant improvements in performance set out on pages 19-23.

Acknowledgements

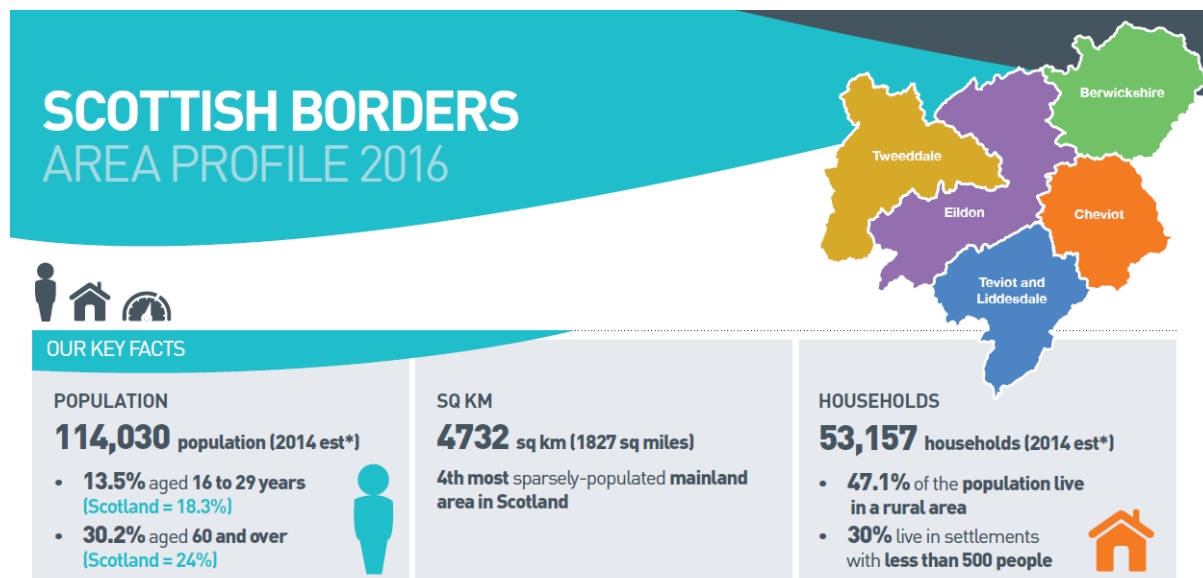
I would like to thank all Officers involved across the Council for their hard work during the year to transform the Council to ensure the continued sound management of the Council's finances and the production of the statutory accounts.

Councillor David Parker

**Leader
Scottish Borders Council**

Management Commentary

Who are we and what do we do?



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

Area Overview

The Scottish Borders area is 473,614 hectares (1,827 square miles) and is located in the South East of Scotland. It has Edinburgh and the Lothians to the North, Northumberland to the South and Dumfries and Galloway to the West.

Scottish Borders is a rural local authority where 30% of the population lives in settlements of under 500 people or in isolated hamlets. The largest town is Hawick with a 2014 estimated population of 14,003, followed by Galashiels with 12,670 – although, if neighbouring Tweedbank were included, Galashiels would be the largest town in Scottish Borders. The only other towns with a population of over 5,000 people are Peebles, Kelso and Selkirk. Scottish Borders Council Area is the fourth most sparsely-populated mainland Local Authority areas in Scotland after Highland, Argyll and Bute and Dumfries and Galloway.

Population

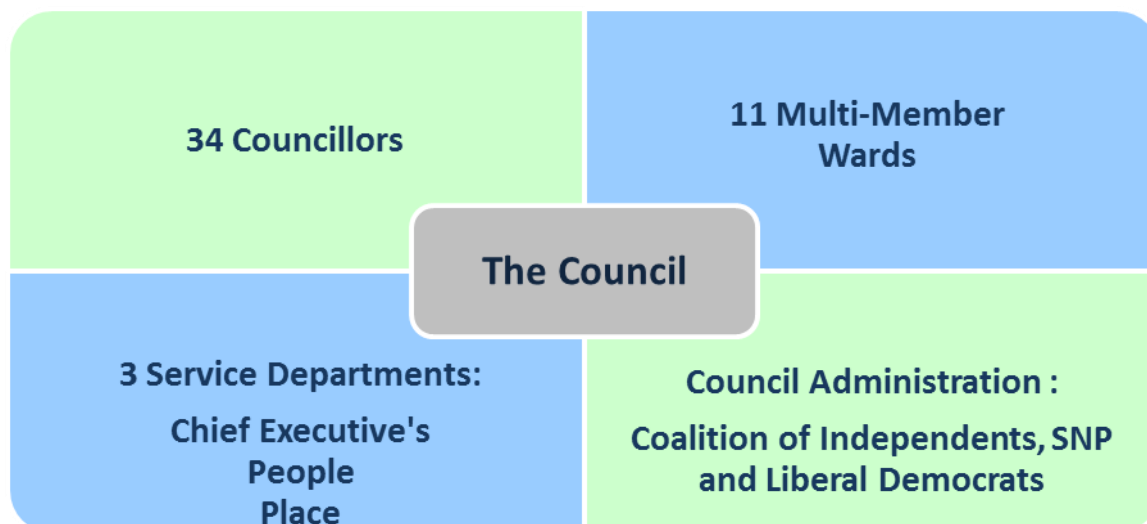
The estimated 2014 population for Scottish Borders was 114,030: an increase of 0.1% from 113,870 in 2013. The population of Scottish Borders accounts for 2.1% of the total population of Scotland. Since 1988, Scottish Borders's total population has risen overall. Scotland's population has also risen over this period.

In Scottish Borders, 13.5% of the population are aged 16 to 29 years. This is smaller than Scotland, where 18.3% are aged 16 to 29 years. Persons aged 60 and over make up 30.2% of Scottish Borders. This is larger than Scotland where 24.0% are aged 60 and over.

The overall population of Scotland is expected to increase by 8.8% between 2012 and 2037 but the overall population of Scottish Borders is not expected to change significantly in the same period. However, the constitution of the population by banded age group is expected to change significantly, with a drop in the proportions of children and working-age people and an increase in the proportion of pensioners. These changes are expected to be more marked in Scottish Borders than in Scotland as a whole. In particular, proportions of the 75+ age group in Scottish Borders are projected to increase by almost 100%, which is even higher than the projected Scottish increase.

Management Commentary

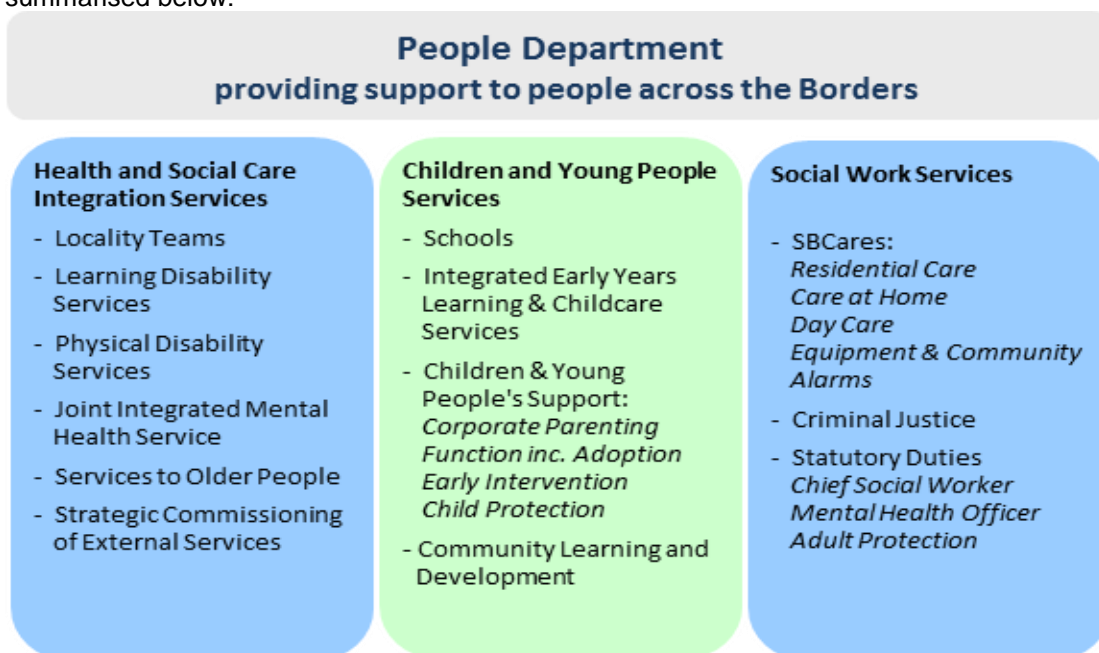
Scottish Borders Council



The Scheme of Administration sets out the operation of the Council. The Council's decision making is delivered through a Committee structure based on an Executive Committee and Scrutiny model.

The Council provides a range of essential public services throughout the region. The strategic management of the delivery of the services is undertaken by the Council's Corporate Management Team, led by Chief Executive, Tracey Logan and two Depute Chief Executives. Public Health is provided in collaboration with NHS Borders. Each department is responsible for implementing the policies of the Council, which comprises of 34 Elected Members (Councillors).

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. The Place and People Departments, each managed by a Depute Chief Executive, deliver the bulk of the Council's public-facing services. The Council's structure is summarised below:



Management Commentary

Place Department providing services across the Borders

Regulatory Services

- Statutory Planning
- Building Standards
- Built and Natural Heritage
- Environmental Health
- Trading Standards
- Legal and Licensing Services
- Assessors Service
- Electoral Registration

Neighbourhood Services

- Roads Maintenance
- Winter Services
- Parks and Open Spaces
- Street Cleansing
- Burials
- SB Local
- Refuse Collection
- Waste Disposal
- Community Recycling
- Registration Services
- Contact Centres
- Call Centre
- Benefits Assessments

Commercial Services

- Asset and Network Management of Roads, Bridges and Lighting
- SBC Contracts
- Fleet Management
- Passenger Transport
- Property Maintenance and Asset Planning
- Cleaning & Catering
- School Crossing Patrols

Capital Project Services

- Design and Delivery of Infrastructure Projects

Chief Executive's Department providing corporate and support services

Corporate Transformation & Services

- Programme Office
- Wellbeing & Safety
- Emergency Planning
- Communication & Marketing
- Information & Communication Technology (ICT)
- Culture & Sport
- Democratic Services

Strategy & Policy

- Economic Development
- Housing and Strategy Services
- Audit & Risk
- Strategy Policy Unit

Joint Health Improvement

- Health Improvement Programme Delivery

Finance & Procurement

- Stewardship & Accountability
- Financial & Performance Management
- Supporting Corporate Transformation
- Pensions & Investments

Human Resources

- HR Advisory Service
- Organisational Development Service
- HR Shared Services

Management Commentary

Strategic Direction



Our Vision

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

Source: Corporate Plan 2013 – 2018

Our Priorities

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



The Corporate Plan was reviewed in October 2015, with SBC re-stating its commitment to the 8 priorities, the Plan will be reviewed again in 2018. The Corporate Plan can be found at www.scotborders.gov.uk/corporateplan. The annual business planning process ensures that all services align their work to the achievement of the 8 priorities. The 2016/17 Business Plans of our individual service areas and the work we do with partners which will help us to deliver these priorities can be found at www.scotborders.gov.uk/businessplans and assessment of how we are doing against these priorities can also be found at www.scotborders.gov.uk/performance.

Management Commentary

When working towards these priorities, the Council has set standards and values:



Financial Strategy and Financial Plans

The Financial Strategy supports the delivery of the Council's Priorities and Corporate Plan. The Revenue and Capital Financial Plan provides a financial representation of these plans covering 5 and 10 years respectively. In order to support the delivery of the Council's priorities the Financial Strategy must:-

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

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

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

The Financial Risk Register informs the Council's Financial Strategy and its General Fund Reserves position. The Financial Strategy, the Revenue and Capital Financial Plan and the Treasury Management Strategy are approved by Council annually in February.

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

Management Commentary

Performance Reporting

The Council has an agreed Performance Management Framework which covers the performance reporting arrangements for both the Council and for its work with Community Planning partners. As part of this framework reports on the Council's performance against the Council's Corporate Priorities (page 7) are presented on a monthly basis to the Corporate Management Team, and on a quarterly basis to the Executive Committee of the Council.

The Performance Management Framework was reviewed alongside the Corporate Plan in October 2015, the Framework will also be reviewed again in 2018.

Reporting of Financial Performance follows the same cycle and consists of monitoring reports on the revenue and capital financial plans and an estimation of projected balances for key usable reserves including the General Fund and the Capital Fund.

In addition to the quarterly reporting there is a range of performance information published for a variety of purposes, locally and at a national level. All of the published performance information can be accessed via links which can be found from the "Our performance as a Council" webpage accessible via www.scotborders.gov.uk/performance. The performance information has been linked to each of the Council's 8 priorities.

Equalities Mainstreaming

Scottish Borders Council takes a positive approach to equalities and human rights through taking forward the actions in its Mainstreaming Equalities Report and Equalities Outcomes Report 2013 -17. This is being implemented by:

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

Management Commentary

How are we are doing? - Financial Performance

Budget and Financial Strategy 2015/16

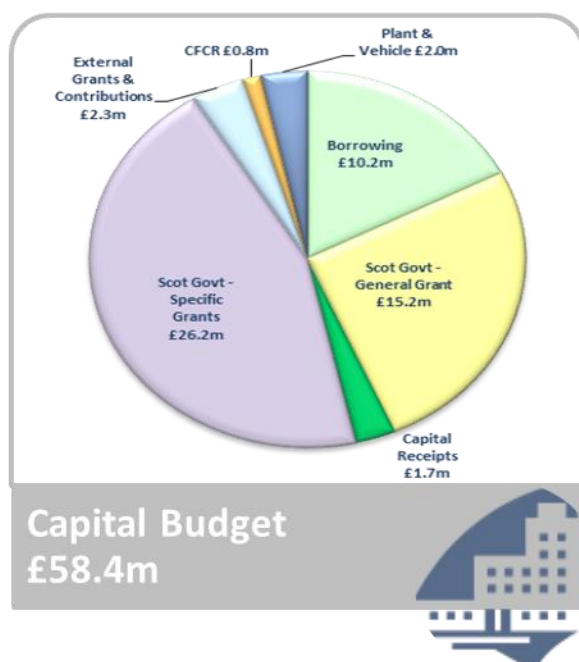
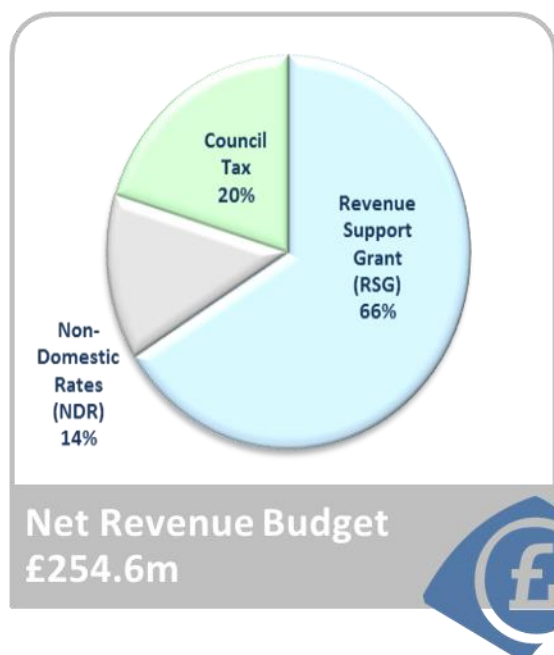
The budget for 2015/16 was approved by the Council on the 12th February 2015 and this included the Financial Strategy. The economic outlook had a direct bearing on public expenditure with the need for tight fiscal constraint to be maintained for the foreseeable future. The Council's aim was to provide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

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

- a **freeze on council tax** in each year of the budget has been reflected pending a longer term national review of Local Government funding through the Council Tax Commission which may result in changes to Local Government finance during the 5 year period;
- set a **prudent, sustainable budget** in line with available resources;
- continue to **invest in infrastructure** through a sustainable capital programme financed by £20.71m loans charges in 2015/16;
- **maximise income** while keeping fees charged to service users at an affordable level;
- continue to **invest in corporate transformation and efficiency projects** to deliver long term financial savings and service benefits;
- focus on **preventative revenue and capital spend**; and,
- **maintain unallocated reserves of £6.756m** for 2015/16 in line with the assessed risk register.

2015/16 Financial Resources Available

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



Management Commentary

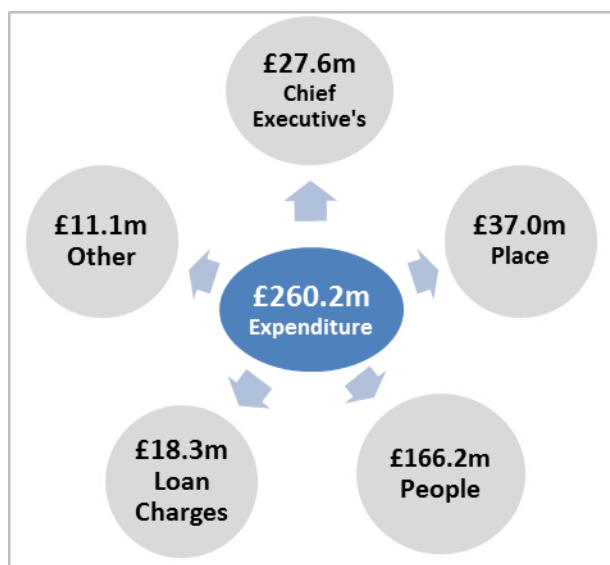
Financial Position at 31 March 2016

The approved budget was subject to a number of amendments during the year, as service pressures and savings were identified, additional grant revenue income was received and budget adjustments were approved. The final financial outturn reports were presented to the Executive Committee on 7 June 2016.

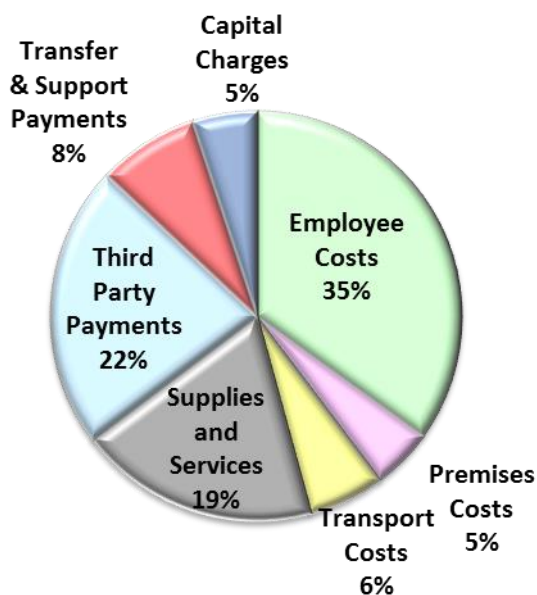
Revenue

The actual outturn for the financial year 2015/16, including funding sources, was a revenue expenditure of £260.2m representing a net under spend of £1.284m (0.49%) against the revised budget.

The following chart analyses the revenue by Council department:

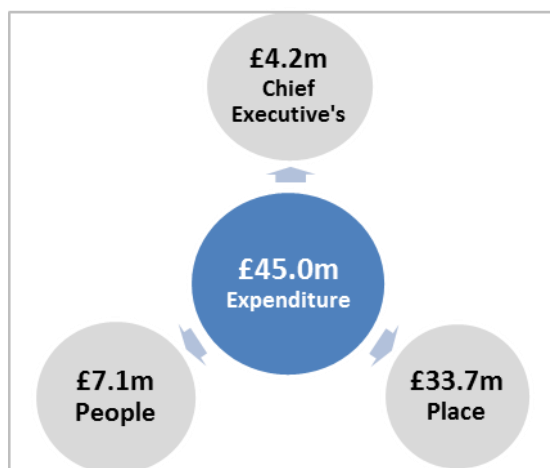


Revenue net expenditure of £260.2m for the year includes income of £136.1m, and gross expenditure of £396.3m as analysed in the chart below:



Capital

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



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

Place	
• Galashiels Transport Interchange	£1.6m
• Roads & Bridge Maintenance	£5.1m
• Lighting inc. Energy Saving	£1.6m
• Flood Protection Schemes	£17.9m
• Waste Infrastructure	£1.3m

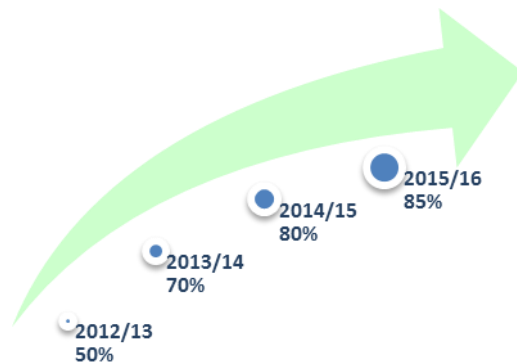
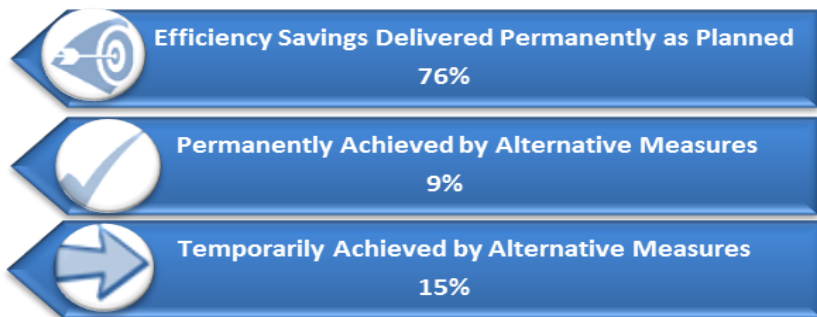
People	
• Duns Primary School	£1.9m
• Kelso High School	£0.5m
• New Primary Schools	£1.1m
• Early Years Programme	£1.1m
• Complex Needs Centre	£0.3m
• Social Care Projects	£0.4m

Chief Executive's	
• Wilton Lodge Park	£0.4m
• Great Tapestry of Scotland Building	£0.4m
• 2G and 3G pitches	£0.8m
• Economic & Regeneration Infrastructure	£1.1m

Management Commentary

Delivery of Targeted Savings

Overall, savings of £7.8m were delivered during 2015/16 in order to balance the costs of delivering services and the available resources. The regular Budget Monitoring reports to the Executive Committee of the Council tracked the delivery of these savings against the Financial Plan proposals. Analysis of delivery of the savings is as follows:



% of Savings Achieved Permanently

Overall, savings of £7.825m were delivered during 2015/16. Of these, £6.620m (85%) were delivered permanently (£5.924m (76%) as intended within the Financial Plan and £0.696m (9%) by alternative means). There is also a demonstrable sustained improvement overall in the delivery of agreed savings by the Council over the past 4 years. This is supported by the regular monthly analysis, reporting and challenge undertaken during the year. It is acknowledged that there will be a requirement for ongoing effort to further improve this delivery performance in 2016/17 and beyond.

Departmental Commentary

Financial Review of 2015/16

- ✓ Permanently delivered £4.1m (89%) of required efficiency savings
- ✓ Actions delivered to significantly reduce impact of demand pressures on Adult Services and Integrated Children Services budgets
- ✓ Provision of 600 hours childcare entitlement for 3 & 4 year olds and eligible 2 year olds rolled out

- Significant in year pressures, caused by:
- Demand for children's out of area placements (£1.3m)
 - Pressures in Older Peoples Services for both home and residential care

Financial Outlook for 2016/17



People

Base budget for 2016/17
£171.1m

- Additional investment made included:*
- ▲ Out of Authority Placements £0.5m
 - ▲ Health & Social Care Integration £5.3m
 - ▲ Older People Demographic £0.2m
 - ▲ Adults with Learning & Physical Disabilities £0.5m

Potential Risks & Challenges for 2016/17:

- Delivering the Children & Young People Transformation programme with savings of £4m
- Maintaining our teacher number commitment to the Scottish Government
- Delivering effective Health and Social Care Integration

Closed 2015/16 with an underspend of £0.4m (0.24%) against the revised budget of £166.6m

Management Commentary

Financial Review of 2015/16

Financial Outlook for 2016/17

<p>✓ Permanently delivered £1.32m (75%) of required efficiency savings</p> <p>✓ Final out-turn influenced by reduced food costs, restrictions on discretionary spending and increased income from internal and external sources</p>	 <p>Place</p>	<p>Base budget for 2016/17 £40.3m</p>
<p>➤ Significant cost pressures in year (£1m) due to:</p> <ul style="list-style-type: none"> • Neighbourhood Services (£0.39m) mainly due to materials and external services costs • Responding to flood damage which it is assumed will be met through a Bellwin claim * <p><small>*Bellwin Scheme is an emergency fund provided by Government</small></p>		<p><i>Additional investment made included:</i></p> <ul style="list-style-type: none"> ▲ Reduced SBc Contracts Surplus £0.1m ▲ Increased Roads budget £0.5m ▲ Increased budget for Gala Transport Interchange £0.1m
<p>Potential Risks & Challenges for 2016/17:</p> <ul style="list-style-type: none"> ➔ Delivery of a new Roads operating model ➔ Achieving Planning Fee Income Target ➔ Restructuring and costs savings targets with the Regulatory Services directorate. ➔ Influence of external factors such as weather and fuel costs 		

Closed 2015/16 with an underspend of £1m (2.6%) against the revised budget of £38m

Financial Review of 2015/16

Financial Outlook for 2016/17

<p>✓ Permanently delivered £1.2m (84%) of required efficiency savings</p> <p>✓ £0.287m of railway investment during the year</p>	<p>Chief Executive's</p>	<p>Base Budget for 2016/17 £23.0m</p>
<p>➤ Pressures in year within the Scottish Wide Area Network (SWAN) project due to increased costs relating to delayed transition of sites have been met from elsewhere within Chief Executive's department</p>		<p><i>Additional investment made included:</i></p> <ul style="list-style-type: none"> - £0.122m of non inflation additional resources were added across the department - £1.9m identified within existing resources to support the Corporate Transformation Programme
<p>Potential Risks & Challenges for 2016/17:</p> <ul style="list-style-type: none"> ➔ Supporting Live Borders to deliver significant savings targets ➔ Delivering back office savings at the same time as increased support demand for the corporate transformation agenda ➔ Preparation for the implementation of a new financial IT system 		

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

Management Commentary

Other Non-Departmental Expenditure including Loan Charges

The “Other” budget includes Corporate Transformation, early retirement/voluntary severance, loan charges, contribution to property maintenance – repairs and renewals fund, provision for bad debts, commercial rents, housing benefits and non-domestic rates relief. The budget also supports Discretionary Housing Payments, the Council Tax Reduction Scheme and Scottish Welfare Fund.

During 2014/15 and 2015/16, as a result of continued tactical treasury management decisions, the Loan Charges budget achieved significant reductions in the cost of financing capital for the Council. This has been possible due to the ongoing low interest rate environment and the significant differential between the cost of short and long term borrowing. These savings were used to support budget pressures elsewhere in the Council and to create a Treasury Management Earmarked Balance. The Council took a decision during 2015/16 to deploy the Treasury Management Earmarked Reserve to part fund the investment in IT required to deliver future transformational change and resulting long term financial benefits for the Council.

OTHER: Closed 2015/16 with a small underspend of £0.07m (0.6%) of the revised budget of £10.9m

LOANS CHARGES: Closed 2015/16 with a small underspend of £0.015m (0.08%) of the revised budget of £18.2m

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 42 shows the accounting cost of providing services rather than the cost of services which requires to be funded by taxation.

Net Cost of Services

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the management out-turn reports in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2015/16 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2016. This results in the (statutory accounting) adjusted net cost of services of £264.9m compared with the reported departmental net cost of services of £260.2m. Note 5, page 61 provides additional analysis of the movement between these figures.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 42 to include net gains/losses on disposal and revaluation of assets, interest payable and adjustments for pension costs. These accounting adjustments result in an overall Surplus on the Provision of Council Services for the year of £4.79m.

Other Comprehensive Income and Expenditure

Following the Actuarial Gains on the Pension Net Assets/Liabilities (£35.7m) the overall Net Comprehensive Income is a surplus of £48.5m (versus £44.9m in 2014/15). This significant improvement in the pensions net position is as a result of continued growth in the value of the Fund's investment assets relative to the its present value of the future pension obligations. The net assets under management by the Scottish Borders Pension Fund grew by 0.2% during 2015/16. The Annual Report and Accounts on the Pension Fund provide a full narrative on its performance and can be found at www.scotborders.gov.uk/pensions.

Management Commentary

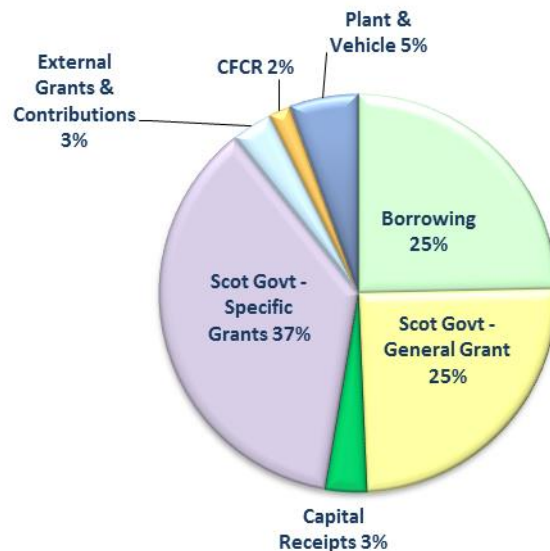
Capital Financing Requirement

In addition to the capital expenditure on fixed and intangible assets of £45.0m the Council utilised the Scottish Government's Consent to Borrow provision to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP (£1m).

Actual Capital Financing 2015/16

This chart shows the profile of the sources of the total £45.0m capital financing requirement for 2015/16.

The chart indicates that 25% (£11.4m) of the capital financing requirement was provided by the Council's capital prudential borrowing.



Treasury and Debt Management

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

Cash Management

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

Debt Management

The Council continued to maintain an under-borrowed position, this means that the capital financing need was not fully funded by external loan debt and instead internal cash supporting the Council's reserves, balances and cash flow has continued to be used as a temporary tactical measure. This strategy remains both prudent and cost effective in an environment where investment returns are low and counterparty risk is high. It has also resulted in short term budgetary benefits highlighted on page 12.

External Debt

The Council's outstanding external debt as at 31 March 2016 was £175m, no additional loans being undertaken during the year. The average rate of interest paid on outstanding external debt was 6.5%. This reflects the age and profile of the loans outstanding.

Management Commentary

Reserves

The Council maintains two types of reserves – usable and unusable – and the movement in these reserves are set out in the Movement in Reserves Statement (page 40).

Unusable Reserves – result from accounting adjustments and cannot be spent

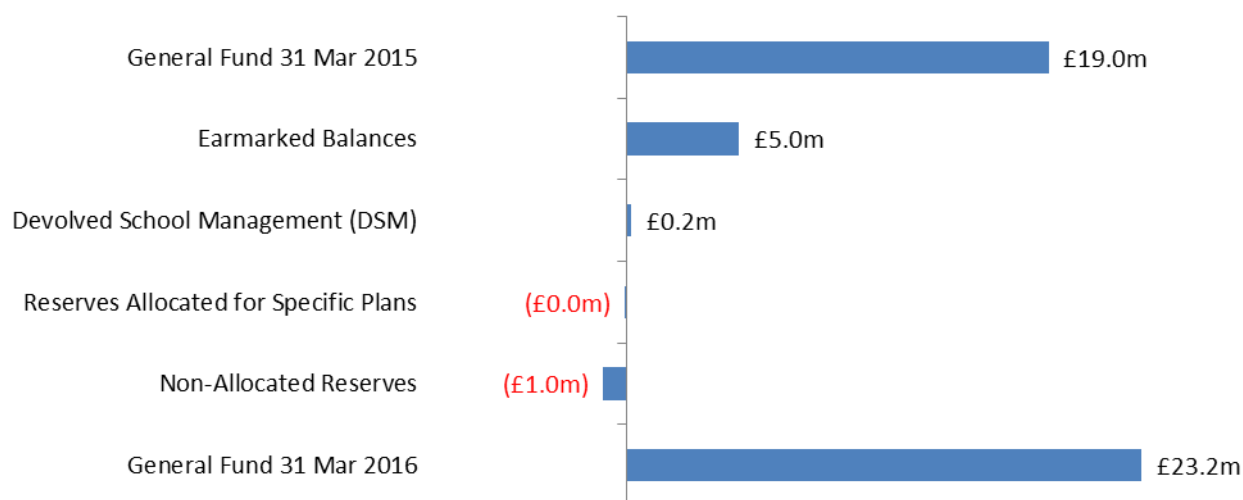
Usable Reserves – result from the Council’s activities and can be spent in the future

Note 31, page 90 provides additional information on the status of the usable and unusable reserves held by the Council.

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

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

As at 31 March 2016 the total General Fund Reserve Balance is £23.2m (£19.0m at 31 March 2015) an increase of £4.2m during the year. The increase, as can be seen from the chart below, can mainly be attributed to the change in the non-allocated reserves and the increase in earmarked balances.



Within the detail of the movements there are the following key changes during 2015/16:

Non-Allocated Reserves

Funding of service pressures (including pay award pressure of £0.7m)	(£1.1m)
Council contribution to Bellwin Scheme	(£0.5m)
Establishment of ER/VS and IT transformation reserve	(£1.1m)
Offset by an increase to the balance from the 2015/16 revenue underspend	£1.3m

Earmarked Balances including

Support for the IT transformation programme	£1.5m
Service earmarking for specific purposes	£3.5m

Reserves Allocated for Specific Plans

Support for 2015/16 Financial Plan	(£0.5m)
Establishment of ER/VS and IT transformation reserve	£1.1m
Drawdown from Allocated balances for specific purposes	(£0.6m)

Management Commentary

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2016 with a comparator year ending 31 March 2015. The Group Accounts for 2015/16 can be found from page 99. The Group comprises of the following:

Subsidiaries

SBC Common Good Funds (*Registered Charity*)

SBC Trust Funds:

Registered Charities

SBC Charity Funds (*77 funds*)

SBC Community Enhancement Trust

SBC Welfare Trust

SBC Education Trust

Ormiston Trust for Institute

Thomas Howden Wildlife Trust

and

174 Non- Registered Trusts

Bridge Homes LLP

SB Cares and SB Supports LLP

Associates

Border Sport and Leisure Trust (BSLT) *

Jedburgh Leisure Facilities Trust

*BSLT became Live Borders on 1st April 2016 as a result of the integration of Culture, Sport and Leisure services into a single Trust.

Common Good and Trust Funds

The Council is trustee for 9 Common Good Funds and large number of trusts and endowments. The Common Good Funds (collectively) and a proportion of trusts are held within charities registered with the Office of the Scottish Charity Regulator (OSCR).

Additional information on Common Good and Trust Funds can be found on pages 95 - 98, and those funds that are in registered charities also have separately prepared and audited annual accounts – the box above highlighting the subsidiary organisations of the Council indicates which entities are registered charities.

The cash related elements of the Capital Reserves of these funds are invested, in accordance with the Common Good and Trust Fund Investment Strategy, with Newton Investment Management. This investment, like any stock market investment is subject to the risk of volatility in return and capital value due to the nature of the investments.

The Council is in the process of reorganising trust funds which are under its custodianship in order to open up trusts for disbursement where their purposes are no longer relevant to modern society and welfare support structures, make the management and governance of the funds less burdensome, and reduce the number of financial statements requiring preparation and external audit.

During 2015/16 the Council continued to progress the integration of the remaining Trusts, where possible into the SBC Welfare Trust, SBC Education Trust and SBC Community Enhancement Trust. Project work on the reorganisation will continue throughout 2016/17.

Management Commentary

Bridge Homes LLP

Scottish Borders Council in partnership with Scottish Futures Trust Investments Ltd (SFT) has established a Council Led House Building Programme (National Housing Trust Local Authority Variant) in order to deliver more housing in the Scottish Borders in line with the Local Housing Strategy. Bridge Homes aims to deliver up to 200 homes for mid-market rent.

Bridge Homes is 99.9% owned by the Council and is financed using approved loan debt of up to £18.8m funded by the Council's prudential borrowing along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget. During 2015/16 the Council lent £1.36m, bringing the total loan to £2.34m to Bridge Homes under the Scottish Government's Consent to Borrow authority linked to NHT projects and this facilitated the acquisition of 23 affordable homes in the Scottish Borders.

The Scottish Government provides a guarantee of rent to cover the loan of up to £3,000 per housing unit delivered.

Scottish Borders Cares and Scottish Borders Supports LLPs

Scottish Borders Cares LLP (SB Cares) and Scottish Borders Supports LLP were launched by the Council on the 1 April 2015 to deliver a variety of social care services. Following a successful first year of operation where 2015/16 Financial Plan savings were fully delivered, these LLPs are included as part of the Group Accounts as subsidiaries from 2015/16.

Live Borders

Borders Sport & Leisure Trust (BSLT) will be replaced as an Associate of Scottish Borders Council in 2016/17 with the new Integrated Sport and Culture Trust, Live Borders. Live Borders was launched on the 1st April 2016 to provide Sport and Culture Services to the Scottish Borders on behalf of the Council.

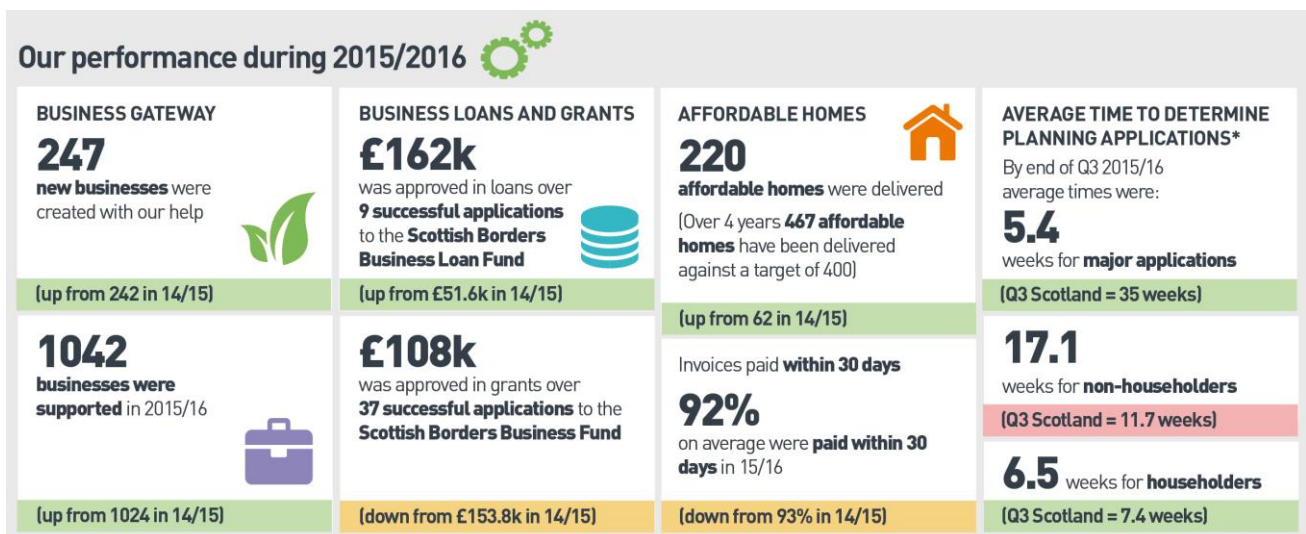
Management Commentary

How are we doing? Performance against our corporate priorities

The Council has made progress in reporting and presenting its performance information relating to each corporate priority. The performance reporting section on page 9 explains the performance management framework and the cycle of monthly and quarterly reporting within the Council.

Each quarter, the report prepared for Executive Committee presents a mix of strategic and operational performance indicators for each corporate priority. These allow Elected Members to assess not only the performance of services but the wider impact of the Council's work. Below is a summary of the key performance information for 2015/16 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.

1. Encouraging Sustainable Economic Growth

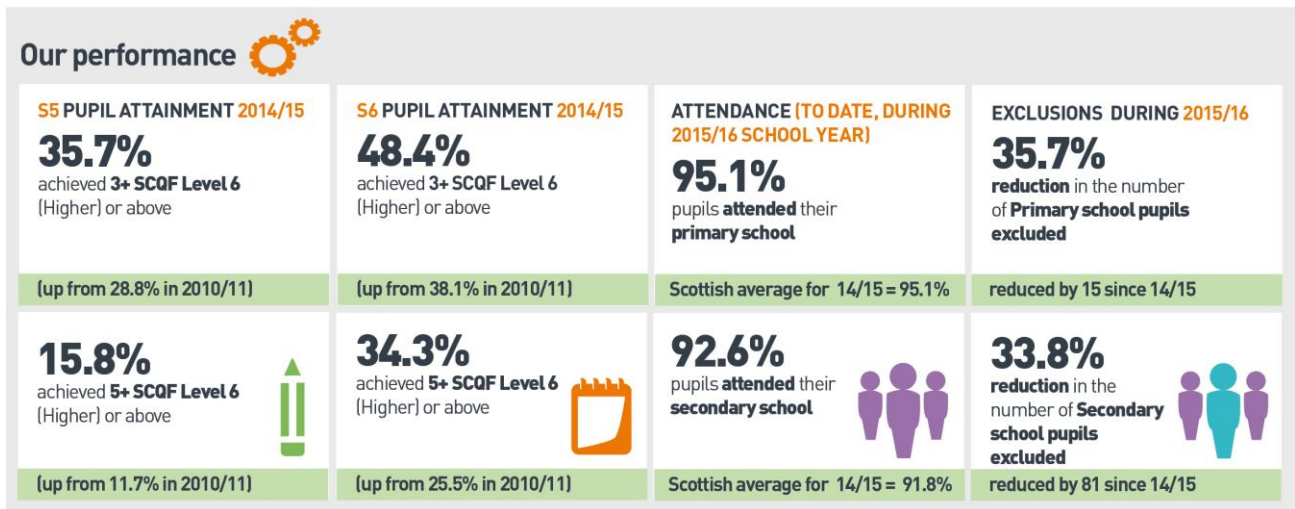


Priorities for the future

- Deliver the actions in the Borders Railway “Blueprint”, including a Central Borders Business Park, Great Tapestry of Scotland building, and inward investment activity
- Continue to lobby for improved digital connectivity (broadband and mobile) for the whole region, both in towns and rural areas
- Work with partner councils to secure a “City Deal” for the South East of Scotland, aimed at delivering economic growth through Government investment
- Engage with businesses and partners to develop young people’s skills for work
- Use SBC-owned Bridge Homes to provide affordable housing (£20m programme)

Management Commentary

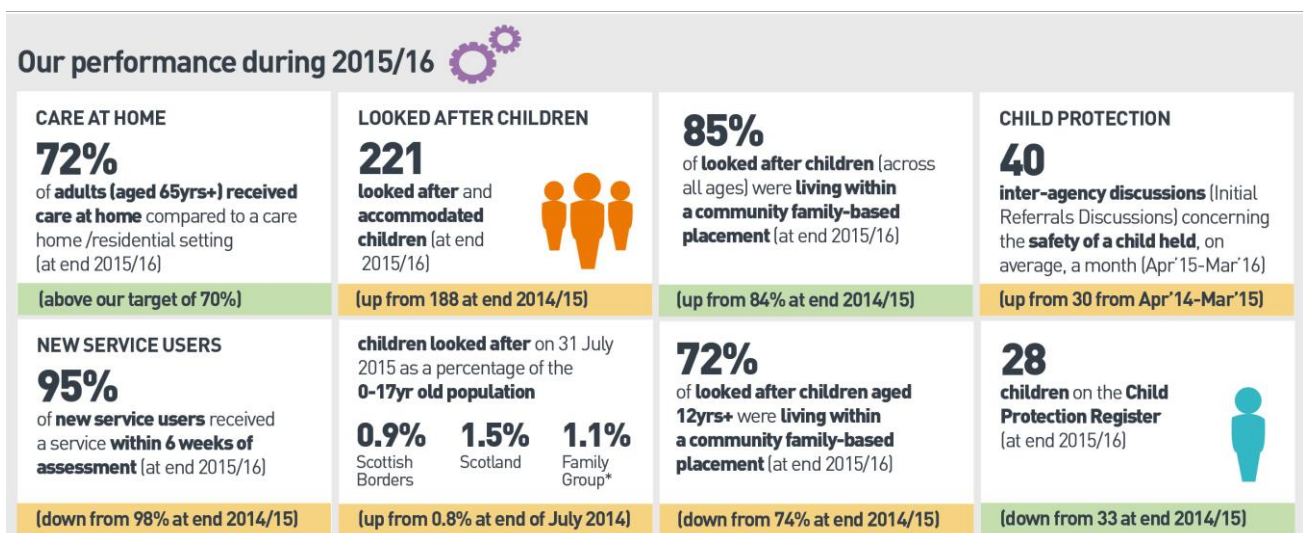
2. Improve attainment and achievement levels for all our children and young people, ensuring an inclusive approach



Priorities for the future

- Through our Children & Young People Transformation Programme, improve the learning experience and opportunities for our children and young people through early intervention and prevention, a fit for purpose school estate and more integrated and streamlined management and administration
- Focus on leadership and professional growth programmes for the staff within our service
- Delivery of new schools in Kelso, Duns and Langlee, Galashiels
- Work with partners to implement the actions in the Developing Scotland's Young Workforce; Youth Employment Strategy (looking specifically at schools & pathways, college, modern apprenticeships, and employer led "invest in young people" groups)

3. Provide high quality support, care and protection to children, young people, adults, families, and older people




Priorities for the future

- Deliver the full integration of health and social care services to improve outcomes for service users and carers
- Review our Adult Services strategy for supporting independence
- Review specialist support for children and young people who require our assistance, for example a child with a learning disability



Management Commentary

4. Build the capacity and resilience of our communities and voluntary sector

April 2015 – March 2016:

TWEEDDALE		EILDON		CHEVIOT	
The following funding was awarded		The following funding was awarded		The following funding was awarded	
£271k National Lottery	£14,210 Quality of Life Fund	£94k National Lottery	£19,720 Quality of Life Fund	£146k National Lottery	£9,253 Quality of Life Fund
£20,189 Community Grants Scheme	£2,014 Neighbourhood Small Schemes Fund	£41,085 Community Grants Scheme	£22,683 Neighbourhood Small Schemes Fund	£22,669 Community Grants Scheme	£25,173 Neighbourhood Small Schemes Fund
14 projects currently in development		25 projects currently in development		15 projects currently in development	
 763 residents have signed up to our SBAAlert service as of March 2016	7 active resilient community plans in place as of March 2016	 1241 residents have signed up to our SBAAlert service as of March 2016	6 active resilient community plans in place as of March 2016	 710 residents have signed up to our SBAAlert service as of March 2016	8 active resilient community plans in place as of March 2016

April 2015 – March 2016:

BERWICKSHIRE		TEVIOT & LIDDESDALE	
The following funding was awarded		The following funding was awarded	
£639k National Lottery	£13,050 Quality of Life Fund	£117k National Lottery	£16,791 Quality of Life Fund
£22,481 Community Grants Scheme	£47,723 Neighbourhood Small Schemes Fund	£25,255 Community Grants Scheme	£24,994 Neighbourhood Small Schemes Fund
29 projects currently in development		18 projects currently in development	
 639 residents have signed up to our SBAAlert service as of March 2016	13 active resilient community plans in place as of March 2016	 435 residents have signed up to our SBAAlert service as of March 2016	1 active resilient community plans in place as of March 2016

Priorities for the future


- Develop a strategic approach to “co-production”, where service users and communities are more involved in service design and delivery
- Complete our pilot “Localities” approach in the Cheviot area (Kelso, Jedburgh and surrounding areas), and roll the approach out across the Borders
- Fully develop our Community Learning and Development (CLD) Strategic Plan 2015-18, aimed at improving life chances and quality of life
- Ensure that SBC is responding proactively to the Community Empowerment Act passed by Scottish Government in June 2015.
- Work with Scottish Government to reach 100% of coverage of superfast broadband of all premises across the Scotland by 2021 (including our more remote communities)

Management Commentary

5. Maintain and improve our high quality environment

April 2015 – March 2016:

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


Our performance during 2015/2016 


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

- Revisit our waste strategy to create efficiency savings, reduce expenditure and provide additional income through the implementation of a revised strategy that is financially and environmentally sustainable
- Implement “spend to save” energy efficiency schemes across the Council estate (including street lighting replacement, and electric vehicle use across SBC)
- Delivery of Low Carbon Economic Strategy Action Plan with community planning partners

6. Develop our workforce

Our performance during 2015/2016 

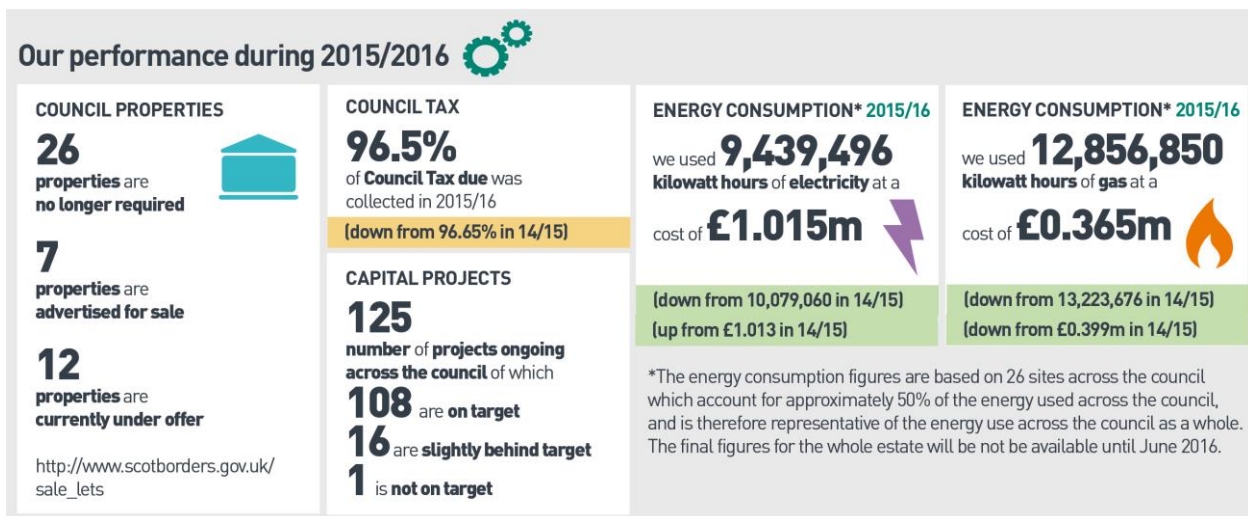
SBC ABSENCE RATE 4.1% of working days were lost , on average, due to absence as of March 2016 (up from 4.0% in March 14/15)	WORK OPPORTUNITIES 56 work opportunities are being supported by SBC through our “Work Opportunities Policy” as of March 2016  (up from 38 in March 14/15)	SBC STAFF BENEFIT SCHEME 33% of employees have registered their discount card on the Employee Benefit Scheme website since October 2015
SB LEARN 5,123 active learners are using our in-house e-learning tool , SBLearn, as of March 2016 (up from 3,335 in March 14/15)	APPRENTICESHIPS 37 apprentices are employed with SBC as of March 2016 (up from 22 in March 14/15)	APPRENTICESHIPS 73% male 27% female across various departments such as Human Resources, Engineering, Finance (86% male in March 14/15) (14% female in March 14/15)
		42 applications have been approved for the Car Salary Sacrifice Scheme since October 2015
		311 applications have been approved for the Technology Salary Sacrifice Scheme since October 2015

Priorities for the future

- Supporting staff development through workforce and succession planning
- Developing our employee benefits strategy
- Improving employee engagement and communication
- A review of the way in which our staff work, where they work, when they work and the technology they need in the future they

Management Commentary

7. Develop our assets and resources



Priorities for the future

- Pursue opportunities around the rationalisation of our estate in order to ensure that we only retain the property we need to deliver services efficiently and effectively
- Explore the possibilities for joint delivery and co-location of services with partners, and the sharing of our property and assets
- Focus on strategic “Spend to Save” projects and initiatives, including a wide range of projects for the estate to save on energy costs
- Focus on a further significant reduction of the office footprint in conjunction with the further adoption of changed working practices so we don’t need as many buildings, and so staff can work more flexibly e.g. from home or using mobile devices when visiting customers

8. Ensure excellent, adaptable, collaborative and accessible public services



Priorities for the future

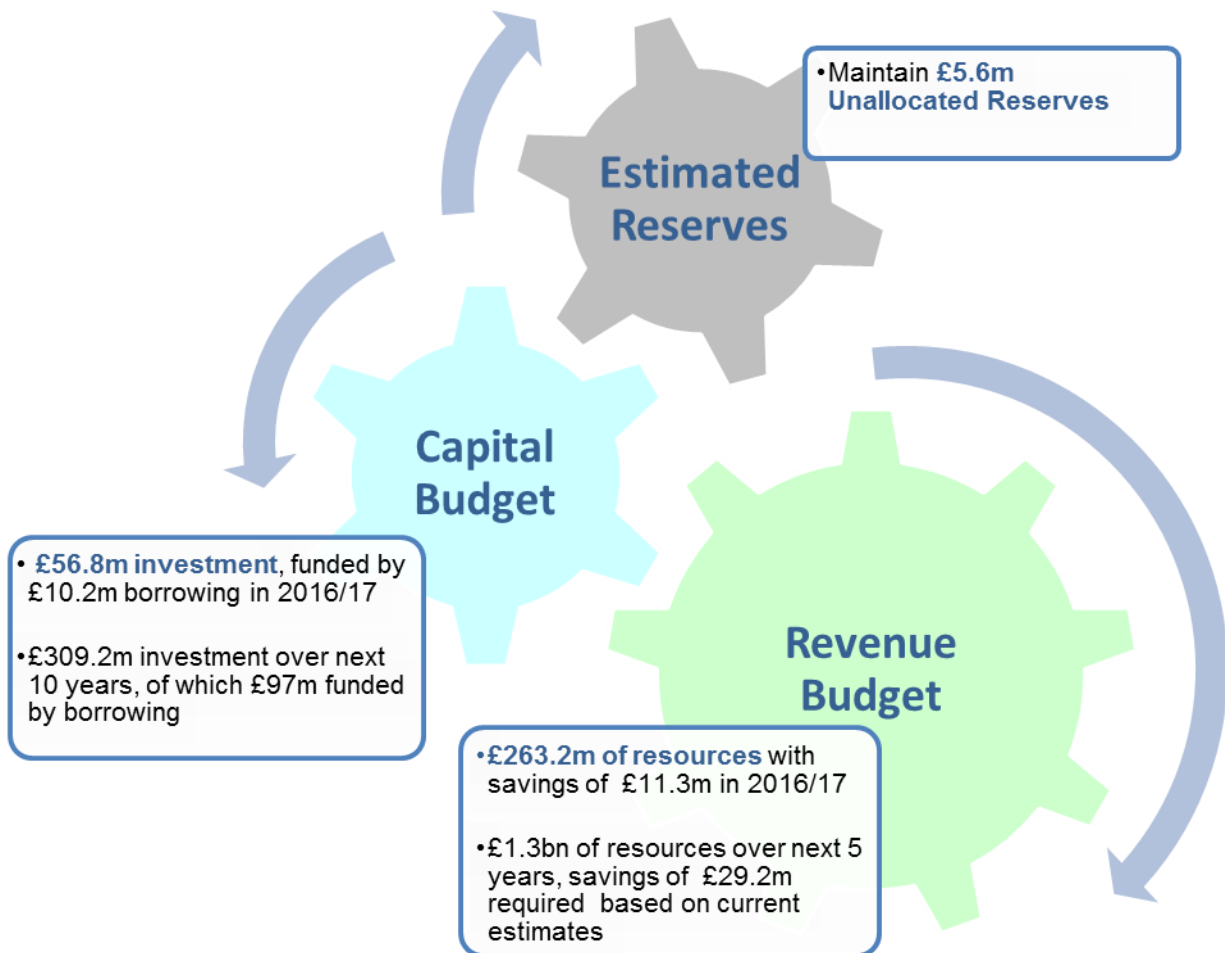
- Continued roll out and development of modern customer services across the Council
- Implement modern ICT systems that support us to deliver services to the customer more efficiently and effectively and help save money
- Expand and update our online services for people who are applying for planning permission or building warrants
- Deliver information sharing requirements across partners
- Review service delivery and Trust models to develop more cost effective service delivery models, for example joint ventures

Management Commentary

Our Plans for the Future

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

Future Financial Plans - 2016/17

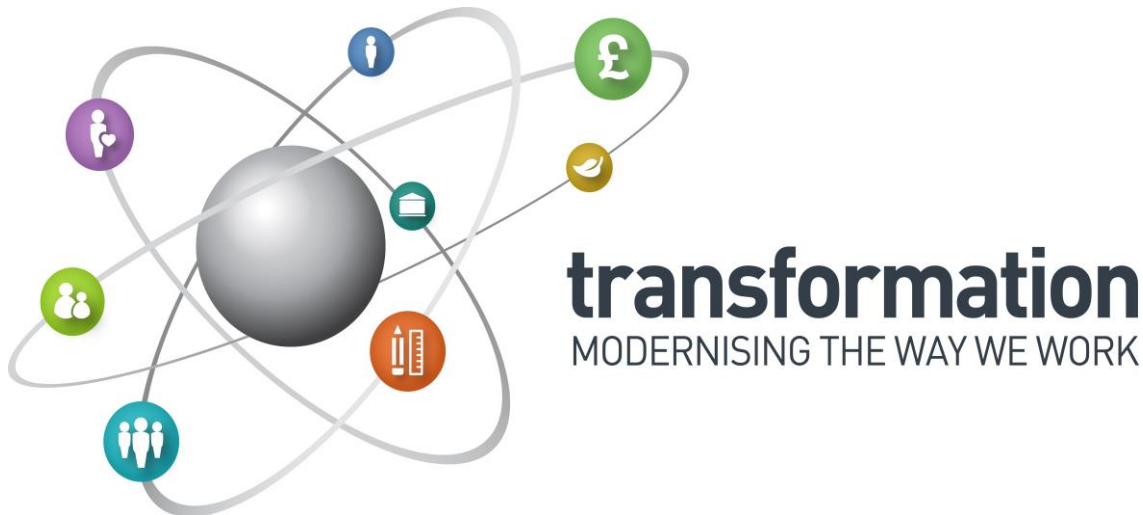


The Revenue and Capital Financial Plans 2016/17 onwards can be found on the Councils webpages at www.scotborders.gov.uk

Management Commentary

Corporate Transformation Programme

Scottish Borders Council has in place an ambitious Corporate Transformation programme of work which provides a framework for the development and delivery of activities and projects to achieve a sustainable financial position over the next 5 years and beyond and underpins the delivery of Elected Member, Corporate and Partnership priorities. Updates are provided to the Executive Committee **on a** quarterly basis and reports are presented to Council on an annual basis.



Below is a list of all the programmes and what they aim to achieve:

Children & Young People

Improve the learning experience and opportunities for our children and young people through early intervention and prevention, a sustainable school estate and more integrated and streamlined management and administration.

Adult Services

Deliver service change and financial savings across a range of Adult services, including SB Cares, reviewed charging and focus on a re-ablement approach to care.

Integration of Health and Social Care

Improved outcomes for service users and carers who will have clear access routes to services and information.

Co-production

Involvement of communities from the outset in the development, design and delivery of service.

Localities Programme

Ensure SBC activity within localities is co-ordinated, via 5 locality plans containing clear actions and accountability.

Waste Plan

Create efficiency savings, reduce expenditure and provide additional income through the implementation of a strategy that is financially and environmentally sustainable.

Railway Programme

Delivery of actions to maximise the full economic and social benefits of the Borders Railway.

Transport

Implement a better, simpler, more accessible and cost effective model of transport service provision, through a multi-agency approach.

Management Commentary

Digital Connectivity

Maximise community and town access to digital connectivity / broadband and mobile telephony.

Alternative Service Delivery Models

Review service delivery and Trust models to develop more cost effective service delivery models (e.g.) Limited Liability Partnerships and joint ventures. This has included the transfer of SBC's cultural services to Borders Sport and Leisure Trust and on 1st April 2016, the formation of an integrated trust "Live Borders"), as well as the creation of SBCares, an arm's length organisation of SBC providing adult care services.

Workforce Transformation

Enable staff to deliver service improvements, review existing management and admin structures and deliver an employee benefit strategy. Implementation of mobile technologies to deliver more effective and efficient ways of working.

ICT Change Programme

IT underpins the majority of the corporate transformation areas and implementation of the ICT strategy will support the delivery of financial savings.

Data / Information Sharing

Deliver information sharing requirements across partners.

Energy Efficiency

Implement spend to save energy efficiency schemes across the Council estate.

Customer First

Continued roll out and development of modern customer services across the Council.

Property & Assets (including Joint Delivery /Co-location)

Pursue opportunities around estate rationalisation, taking full account of future service delivery models and school estate strategy, identifying specific targets for energy efficiencies. Actively pursue opportunities for co-location with our partners and opportunities for joint working.

Business Process Re-engineering

Agreed approach to process improvement applied across a range of service areas.

For more information on any of these programmes visit www.scotborders.gov.uk/transformation

Conclusion

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

David Parker
Leader
Scottish Borders Council
29th September 2016

Tracey Logan
Chief Executive

David Robertson CPFA
Chief Financial Officer

Statement of Responsibilities

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Council has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Council's Executive Committee at its meeting on 29th September 2016.

The Chief Financial Officer's responsibilities

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

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

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

The Chief Financial Officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the local authority (and its group) for the year ended 31 March 2016.

David Robertson CPFA
Chief Financial Officer
29th September 2016

Annual Governance Statement 2015/16

Introduction

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

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

To this end, the Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities. A copy of the Local Code of Corporate Governance is available on the Council's website at www.scotborders.gov.uk.

This Annual Governance Statement explains how the Council has complied with the terms of the Local Code for the year ended 31 March 2016. The statement also covers relevant governance issues as they affect those entities included as part of the Council's Group Accounts.

The Governance Framework

The Council's Local Code of Corporate Governance provides the framework against which compliance is measured. This Local Code sets out the key principles, which require to be complied with, to demonstrate effective governance. The Local Code has been reviewed and revised to reflect significant changes in governance arising from alternative service delivery arrangements, new partnership arrangements and other new legislation. It will be presented for Council approval in May 2016.

The key elements of the Council's governance arrangements as set out in the Local Code include:

- 1) The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council.
- 2) The Council has an approved Performance Management Framework in place to enable progress to be monitored against the Council's Corporate Plan and Priorities, SOA and associated Service Business Plans and Financial Plans, and to ensure it meets its legal duty to provide best value to people and reports publicly on its performance.
- 3) The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.
- 4) The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.
- 5) The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.
- 6) Codes of conduct are in place for, and define the standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity. This includes a range of systems and procedures that are in place to ensure that elected members and employees are not influenced by prejudice or conflicts of interest in dealing with local citizens.
- 7) The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Annual Governance Statement

- 8) The Council is committed to the delivery of efficiencies through its transformation programme with the objective to deliver efficient and effective services to customers, whilst maintaining a robust control environment. On an annual basis it identifies efficiency savings to be made within the financial plans, and monitors their achievement on a regular basis.
- 9) The Council has undertaken two significant strategic developments involving different structures for delivering its services, requiring different governance arrangements. Firstly, from 1 April 2015 the LLP Strategic Governance Group, a Sub-Committee of Council, was set up to carry out the monitoring and control functions required by the Council in connection with SB Cares LLP, a wholly owned subsidiary for the delivery of the Council's adult care services. Secondly, from 1 April 2016 the Executive Committee will fulfil the performance monitoring role to ensure delivery of the agreed outcomes by the Integrated Culture and Sports Trust and a Member-Trustee Liaison Group has been created as a strategic forum.
- 10) The Council fosters relationships and partnerships with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Vision, Values and Standards within the Corporate Plan.
- 11) Significant work has been undertaken over the last 2 years to develop the governance arrangements associated with the Health and Social Care Integration programme ensuring delivery of structural reforms in local authority and NHS services in compliance with new legislation and regulations. The final Scheme of Integration has been approved by Scottish Ministers. The formal establishment of the Integration Joint Board was approved on 7 March 2016, as well as the approval of the Strategic Plan which became live on 1 April 2016, and the formal appointment of the Chief Officer and Chief Finance Officer. The Chief Officer Audit & Risk has been fully involved in developing the governance scheme for the Partnership as a member of the Integration & Governance working group.
- 12) The corporate management structure consists of the Chief Executive, two Depute Chief Executives and ten Service Directors. The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process.
- 13) The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.
- 14) The Chief Social Work Officer (CSWO) provides the Council with professional advice on the discharge of her statutory social work duties. She promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc. The CSWO presents an account of this work in an annual report to Council. The report also gives an overview of regulation and inspection, workforce issues and social policy themes over the year and highlights some of the forthcoming challenges.
- 15) The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control under the terms of the financial regulations.
- 16) The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. In particular, the system includes annually approved revenue and capital financial plans, medium term financial planning, setting and monitoring targets to measure financial performance, and regular reviews of periodic and annual financial reports which indicate financial performance against budgets.
- 17) The Service Director Regulatory Services (the Monitoring Officer) is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. In line with the Council's Monitoring Officer Protocol, an annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.
- 18) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements carried out by an in-house internal audit team in conformance with the Public Sector Internal Audit Standards.
- 19) The Council responds to the findings and recommendations of internal audit, external audit, scrutiny and inspection bodies. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Annual Governance Statement

- 20) The Council has reviewed and refreshed its risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.
- 21) The Council has reviewed and refreshed its proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.
- 22) The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

Review of Framework

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

The review is informed by the work of an officer self-evaluation working group on corporate governance which undertakes an annual self-assessment against the Council's Local Code of Corporate Governance. This group has responsibility for monitoring compliance with the Local Code and making recommendations to ensure continuous improvement of the systems in place.

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

The conclusion from the review activity outlined above is that in 2015/16 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

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

- (a) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) complete roll-out of people planning and succession planning across the Council as part of its people management arrangements; (ii) ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities; (iii) continue to ensure that options are fully appraised for alternative models and structures to enable delivery of efficient and effective services to customers in a sustainable way; and (iv) continue to monitor governance of arms-length external organisations (ALEOs).
- (b) On-going monitoring and review of the Performance Management Framework to ensure it is embedded in service delivery, and informs improvement activity and decision making. This will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to the business planning cycle.
- (c) The Council's decision to implement the new Business World ERP means that there will be a requirement to review and agree amended Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations, and for the provision of financial training to managers and budget holders across the whole Council.
- (d) Consistent application across all the activity in the Corporate Transformation Programme of the demonstrated key success factors including the robust definition of Business Case and Benefits, Return on Investment, and Programme and Change Management to ensure there is confidence of the delivery of improvements and savings.
- (e) Ensure comprehensive information management across the Council and within each department in all relevant aspects of service delivery through appropriate awareness of and adherence to procedures, practices and guidelines to ensure full compliance with legislation and regulations.
- (f) Continue to improve the reporting arrangements to: (i) Evidence that learning from complaints is taking place and SPSO decisions are being reported to elected members; and (ii) Expand the volume of

Annual Governance Statement

compliments and other comments, to gather a wide range of feedback from service users, and ensure these are reflected alongside the arrangements in place for dealing with complaints.

- (g) Development of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future and enhancing on-going delivery of capital programmes and projects linked to the corporate transformation programme.
- (h) Establishment of better ways of linking recommendations made by Internal Audit, External Audit and other external scrutiny and inspection bodies to service action plans within each Service Directorate through a more user friendly method of viewing actions in Covalent linked to Performance measures and risk, as clear evidence of continuous improvement.

These actions to enhance the governance arrangements in 2016/17 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review.

Certification

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

Tracey Logan
Chief Executive

29th September 2016

Remuneration Report

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

Remuneration Policy

Remuneration of Senior Councillors

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

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2015/16 the salary for the Leader of Scottish Borders Council is £33,454. The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its Senior Councillors shall not exceed £292,712. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The policy for Scottish Borders Council is to have a maximum of 14 Senior Councillors plus a Council Leader and Convener.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader and Convener, is £292,479. Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become members of the pension scheme.

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

Remuneration of Senior Employees

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

A senior employee is any employee who:

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

Subsidiaries

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

Remuneration Report

Remuneration Policy

Subsidiaries

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

Remuneration Disclosures

General Disclosure by Pay Band

The Code of Practice on Local Authority Accounting in the UK also requires information to be provided on the number of persons whose remuneration was £50,000 or more. This information is to be disclosed in bands of £5,000. The numbers of employees at Scottish Borders Council whose remuneration was £50,000 or more, excluding employer's pension and national insurance contributions, is shown in the following table:

Remuneration Bands	Chief Officer		Teachers		Other Staff		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£50,000 - £54,999 ^{*^}	-	-	49	48	11	17	60	65
£55,000 - £59,999 ^{*^}	2	2	9	15	5	3	16	20
£60,000 - £64,999 [^]	8	4	3	2	-	1	11	7
£65,000 - £69,999 [*]	-	1	1	2	-	1	1	4
£70,000 - £74,999	5	2	4	5	-	-	9	7
£75,000 - £79,999 [*]	4	-	-	-	-	1	4	1
£80,000 - £84,999 [^]	2	3	-	-	-	-	2	3
£85,000 - £89,999	1	2	-	-	-	-	1	2
£90,000 - £94,999 [*]	-	1	-	-	-	-	-	1
£95,000 - £99,999	1	-	-	-	-	-	1	-
£100,000 - £104,999	1	1	-	-	-	-	1	1
£105,000 - £109,999	1	-	-	-	-	-	1	-
£110,000 - £114,999	-	1	-	-	-	-	-	1
£115,000 - £119,999 [^]	-	-	1	-	-	-	1	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	1	1	-	-	-	-	1	1
£130,000 - £134,999 [*]	-	1	-	-	-	-	-	1
£135,000 - £139,999	-	-	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	-	-	-	-
£155,000 - £159,999	-	-	-	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-	-	-	-
£165,000 - £169,999	-	-	-	-	-	-	-	-
£170,000 - £174,999	-	-	-	-	-	-	-	-
£175,000 - £179,999 [*]	-	1	-	-	-	-	-	1
Total	26	20	67	72	16	23	109	115

Key:

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

^ Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2014/15

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2014/15 £	Councillor Name	Responsibility	Salaries, fees and allowances £	Taxable Expenses £	Total Remuneration 2015/16 £
33,123	D Parker	Leader of the Council	33,454	0	33,454
24,842	G Garvie	Convener	25,090	0	25,090
57,965		Leader and Convener Remuneration	58,544	-	58,544
24,842	J Mitchell	Depute Leader of the Council	25,090	0	25,090
22,442	M Cook	Executive Member for HR and Corporate Improvement	22,666	0	22,666
22,442	V Davidson	Executive Member for Culture, Sport, Youth & Communities	22,666	0	22,666
22,442	F Renton	Executive Member for Social Work & Housing	22,666	0	22,666
22,442	D Moffat	Executive Member for Community Safety	22,666	0	22,666
22,442	J Brown	Executive Member for Community Planning/Vice Convener	22,666	0	22,666
22,442	A Aitchison	Executive Member for Education	22,666	0	22,666
22,442	S Bell	Executive Member for Economic Development	22,666	0	22,666
22,442	G Edgar	Executive Member for Roads and Infrastructure	22,666	35	22,701
22,442	D Paterson	Executive Member for Environmental Services	22,666	0	22,666
20,146	W Archibald	Convener of the Licensing Board	20,347	0	20,347
20,146	M Ballantyne	Leader of Opposition	20,347	0	20,347
22,442	R Smith	Executive Member for Planning and Environment	22,666	0	22,666
289,554		Total Other Senior Councillor Remuneration	292,444	35	292,479
347,519		Total Senior Councillor Remuneration	350,988	35	351,023

(1) The total remuneration figures relate to the salary, fees and allowance for 2015-16 are as included in the Comprehensive Income and Expenditure Statement. They are only in respect of monies paid to Councillors whilst actually holding a Senior Councillor position during that year.

(2) Councillor Bhatia held the position of Depute Leader (Health Services) which is not a remunerated post.

Total Remuneration paid to Councillors

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

2014/15 £'000		2015/16 £'000
660	Salaries	669
98	Expenses	109
758	Total	778

The draft annual return of Councillors' salaries and expenses for 2015/16 is available on the Council's website at www.scotborders.gov.uk.

Remuneration Report

Remuneration of Senior Employees

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

2014/15 Total Remuneration £	Name	Post Title	2015/16				Total Remuneration £
			Salaries, fees and allowances £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	
	Senior Employees in post as at 01/04/15						
128,649	TM Logan	Chief Executive (1)	126,492	-	-	945	127,437
103,251	P Barr	Depute Chief Executive (2)	20,960	-	-	-	20,960
99,816 (FYE 101,508)	J McDiarmid	Depute Chief Executive (appointed 7 April 2014)	103,031	-	-	-	103,031
106,515	JR Dickson	Corporate Programmes & Services Director (3)	111,251	-	-	-	111,251
84,970	KD Robertson	Chief Financial Officer	85,227	10	-	-	85,237
78,717	J Craig	Service Director Neighbourhood Services	80,187	-	-	-	80,187
63,607	C Hepburn	Chief Human Resources Officer	66,168	-	-	-	66,168
78,847	EH Torrance	Chief Social Work Officer	80,028	28	-	-	80,056
78,749	GB Frater	Service Director Regulatory Services	80,187	16	-	-	80,203
6,855 (FYE 85,000)	D Manson	Service Director Children & Young People (appointed 2 March 2015)	86,207	-	-	-	86,207
-	B Park	Chief Officer Roads (appointed 5 January 2016)	17,416 (FYE 72,797)	-	-	-	17,416
78,350 (FYE 75,301)	M Joyce	Interim Capital Projects Service Director (left 29 March 2015) Service Director Assets & Infrastructure (appointed 29 March 2016)	677 (FYE 84,000)	-	-	-	677
	Senior Employees departed post before 01/04/16						
80,487	DA Cressey	Service Director Strategy & Policy (left 15 November 2015)	52,630 (FYE 81,694)	-	122,541	-	175,171
72,833	AF Drummond-Hunt	Service Director Commercial Services (left 31 March 2016)	75,456	89	57,748	-	133,293
1,061,646	Total		985,917	143	180,289	945	1,167,294

Notes

- (1) TM Logan figure of £126,492 includes £1,092 for balance of Counting Officer fee for the Scottish Independence Referendum on 18 September 2014 and £2,784 for Returning Officer fee for the General Election on 7 May 2015.
- (2) P Barr seconded to SB Cares (subsidiary) as Managing Director from 1 April 2015. The above figure represents 20% of time employed by SBC, with the remaining 80% (£83,840) met by SB Cares.
- (3) JR Dickson salaries, fee and allowances figure of £111,251 includes £2,276 Depute Local Returning Officer fee for the General Election on 7 May. In addition, compensation payment has been made for annual leave that was not able to be taken due to Emergency Planning commitments.

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

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2014/15 and 2015/16:

2015/16

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

The total costs of £2.234m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. In addition the Council's Comprehensive Income and Expenditure Statement includes a provision for £0.155m relating to exit packages agreed in 2015/16 for staff departures which will happen in 2016/17. These costs are included in the pay bandings shown within table above.

2014/15

Exit Package Cost band (including special payments) 2014/15	Number of Compulsory Redundancies	Number of Other Agreed Departures	Total Number of Exit Packages by Cost Band	Total cost of Exit Packages in each band £
£0 - £20,000	14	11	25	181,000
£20,001- £40,000	7	6	13	352,967
£40,001- £60,000	-	2	2	92,169
£60,001- £80,000	-	-	-	-
£80,001- £100,000	-	-	-	-
£100,001- £150,000	-	-	-	-
£150,001- £200,000	-	-	-	-
Total	21	19	40	626,136

Remuneration Report

Pension Benefits

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

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

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

The normal retirement age under the scheme for both Councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much of their pay falls into each tier. The tiers and members contributions rates for 2015/16 were as follows:

Whole Time Pay	2015/16
On earnings up to and including £20,500 (2014/15 £20,335)	5.50%
On earnings above £20,500 and up to £25,000 (2014/15 £20,335 to £24,853)	7.25%
On earnings above £25,000 and up to £34,400 (2014/15 £24,853 to £34,096)	8.50%
On earnings above £34,400 and up to £45,800 (2014/15 £34,096 to £45,393)	9.50%
On earnings above £45,800 (2014/15 £45,393)	12.00%

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

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

As of 1 April 2015, the Local Government Pension Scheme (Scotland) Regulations 2014 came into effect. This changed the accrual rate of guaranteed pension to 1/49th of career average salary, effective from 1 April 2015.

The value of accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive pension benefits on retirement without reduction (where benefits are paid on earlier than "normal date of retiral") and without the exercise of any option to commute pension entitlement into a lump sum and without any adjustment for the effects of inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

Remuneration Report

Pension Benefits of Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2016 are shown in the following table, together with the contribution made by the Council to each Senior Councillor's pension during the year. It should be noted all Councillor pensions reported below are calculated on career average earnings.

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

Councillor Name	Responsibility	In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2015 £	For year to 31 March 2016 £	Type	As at 31 March 2016 £	Difference from 31 March 2015 £
D Parker	Leader of the Council	5,962	6,022	Pension	5,093 p.a.	717 p.a.
G Garvie	Convener	4,472	4,516	Lump Sum	2,552	20
J Mitchell	Depute Leader of the Council	4,472	4,516	Pension	2,126 p.a.	949 p.a.
M J Cook	Executive Member for HR and Corporate Improvement	4,040	4,080	Lump Sum	-	-
V Davidson	Executive Member for Culture, Sport, Youth & Communities	4,040	4,080	Pension	3,517 p.a.	945 p.a.
D P Moffat	Executive Member for Community Safety	4,040	4,080	Lump Sum	1,739	251
J Brown	Executive Member for Community Planning/Vice Convener	4,040	4,080	Pension	3,624 p.a.	467 p.a.
A Aitchison	Executive Member for Education	4,040	4,080	Lump Sum	1,830	3
S Bell	Executive Member for Economic Development	4,040	4,080	Pension	3,375 p.a.	494 p.a.
G Edgar	Executive Member for Roads and Infrastructure	4,040	4,080	Lump Sum	1,686	18
D Paterson	Executive Member for Environmental Services	4,040	4,080	Pension	3,147 p.a.	519 p.a.
W Archibald	Convener of the Licensing Board (Retired 26/03/2015)	3,626	0	Lump Sum	1,554	33
R Smith	Executive Member for Planning and Environment	4,040	4,080	Pension	4,391 p.a.	872 p.a.
				Lump Sum	4,869	277
				Pension	3,317 p.a.	856 p.a.
				Lump Sum	1,652	228
				Pension	1,945 p.a.	857 p.a.
				Lump Sum	-	-
				Pension	1,945 p.a.	857 p.a.
				Lump Sum	-	-
				Pension	7,596 p.a.	606 p.a.
				Lump Sum	15,264	254
				Pension	-	(2,354) p.a.
				Lump Sum	-	(1,356)
				Pension	3,543 p.a.	859 p.a.
				Lump Sum	1,783	230
Total		54,892	51,774			

Notes

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

Remuneration Report

Pension Benefits of Senior Employees

The pension entitlements for Senior Employees for the year to 31 March 2016 are shown in the table below, together with the contribution made by the Council to each Senior Employee's pension during the full year to 31 March 2016.

Name		In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2015	For year to 31 March 2016	Type	As at 31 March 2016	Difference from 31 March 2015
		£	£		£	£
Senior Employees in post as at 01/04/15						
TM Logan	Chief Executive	21,746	21,849	Pension Lump Sum	39,658 p.a 74,762	2,776 p.a. 356
P Barr (1)	Depute Chief Executive	18,584	3,773	Pension Lump Sum	20,080 p.a 22,385	2,404 p.a. 331
J McDiarmid	Depute Chief Executive	17,967	18,546	Pension Lump Sum	3,792 p.a. -	2,128 p.a. -
JR Dickson	Corporate Programme & Service Director	18,401	18,546	Pension Lump Sum	8,727 p.a. -	2,155 p.a. -
KD Robertson	Chief Financial Officer	15,280	15,341	Pension Lump Sum	27,900 p.a 52,914	1,843 p.a. 209
J Craig	Service Director Neighbourhood Services	14,169	14,434	Pension Lump Sum	28,917 p.a 57,784	2,137 p.a. 1,059
C Hepburn	Chief Human Resources Officer	11,025	11,910	Pension Lump Sum	8,701 p.a 2,203	1,896 p.a. 164
EH Torrance	Chief Social Work Officer	16,531	14,382	Pension Lump Sum	37,787 p.a 84,500	2,165 p.a. 1,249
GB Frater	Service Director Regulatory Services	14,169	14,434	Pension Lump Sum	38,451 p.a 86,388	2,311 p.a. 1,584
D Manson	Service Director Children and Young People (appointed 2 March 2015)	1,234	15,517	Pension Lump Sum	1,877 p.a -	1,761 p.a. -
B Park (2)	Chief Officer Roads (appointed 5 January 2016)	8,322	3,716		25,633 p.a 53,797	9,621 p.a. 19,630
M Joyce (3)	Interim Capital Projects Service Director (left March 2015) Service Director Assets & Infrastructure (appointed 29 March 2016)	13,021	122	Pension Lump Sum	14 p.a -	(1,703) p.a. -
Senior Employees departed post before 01/04/15						
DA Cressley	Service Director Strategy & Policy	14,488	9,191	Pension Lump Sum	36,581 p.a. 82,243	1,373 p.a. 766
AF Drummond-Hunt	Service Director Commercial Services (appointed 1 April 2014)	13,092	13,104	Pension Lump Sum	27,081 p.a 54,334	2,208 p.a. 1,534
Total		198,029	174,865			

Notes

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

- (1) P Barr seconded to SB Cares (subsidiary) as Managing Director from 1 April 2015. The above figure for in year contributions represents 20% of time employed by SBC.
- (2) B Park left employment on 26/04/2015, re-joined on 05/01/2016.
- (3) M Joyce left employment on 29/03/2015, re-joined on 29/03/2016.

David Parker
Leader
29th September 2016

Tracey Logan
Chief Executive

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Movement in reserves during 2014/15

General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 01/04/2015	(17,136)	(6,923)	(300)	(1,361)	(25,720)	52,327	26,607

Movement in reserves during 2014/15

(Surplus)/deficit on provision of services	(179)	-	-	-	(179)	-	(179)
Other Comprehensive Income & Expenditure	-	-	-	-	-	(44,745)	(44,745)
Total Comprehensive Income & Expenditure	(179)	-	-	-	(179)	(44,745)	(44,924)

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(20,886)	-	-	-	(20,886)	20,886	-	12 & 14
Impairment losses (charged to CI&ES)	(3,085)	-	-	-	(3,085)	3,085	-	
Revaluation Losses	(288)	-	-	-	(288)	288	-	
Capital grants and contributions applied	20,768	-	-	-	20,768	(20,768)	-	28
Employee Statutory Adjustments	1,270	-	-	-	1,270	(1,270)	-	
Profit/(Loss) on disposal of assets	(288)	(747)	-	-	(1,035)	1,035	-	
Revenue Exp Funded From Capital	(3)	-	-	-	(3)	3	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	-	-	206	(206)	-	
Net retirement charges per IAS 19	(25,039)	-	-	-	(25,039)	25,039	-	
Loans Fund principal repayments and Statutory premia	10,818	-	-	-	10,818	(10,818)	-	
Capital Expenditure charged to General Fund balance	935	-	-	-	935	(935)	-	
Employers contribution payable to Pension Fund	12,517	-	-	-	12,517	(12,517)	-	
Net (Increase)/Decrease before transfers	(3,254)	(747)	-	-	(4,001)	(40,923)	(44,924)	
Net Transfers to or (from) other reserves	1,399	18	261	47	1,825	(1,825)	-	
(Increase)/Decrease in 2014/15	(1,855)	(629)	261	47	(2,176)	(42,748)	(44,924)	
Balance at 31/03/2015	(18,991)	(7,552)	(39)	(1,314)	(27,896)	9,579	(18,317)	31

Movement in Reserves Statement

Movement in reserves during 2015/16

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 01/04/2015	(18,991)	(7,552)	(39)	(1,314)	(27,896)	9,579	(18,317)	31

Movement in reserves during 2015/16

(Surplus)/deficit on provision of services	(4,786)	-	-	-	(4,786)	-	(4,786)	
Other Comprehensive Income & Expenditure	-	-	-	-	-	(43,758)	(43,758)	
Total Comprehensive Income & Expenditure	(4,786)	-	-	-	(4,786)	(43,758)	(48,544)	

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(21,247)	-	-	-	(21,247)	21,247	-	12 & 14
Impairment Losses (charged to CI&ES)	(1,126)	-	-	-	(1,126)	1,126	-	
Revaluation Losses	(7,754)	-	-	-	(7,754)	7,754	-	
Capital grants and contributions applied	28,939	-	-	-	28,939	(28,939)	-	28
Employee Statutory Adjustments	1,008	-	-	-	1,008	(1,008)	-	
Profit/(Loss) on disposal of assets	(651)	(1,263)	-	-	(1,914)	1,914	-	
Revenue Exp Funded From Capital	-	-	-	-	-	-	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	-	-	206	(206)	-	
Net retirement charges per IAS 19	(22,496)	-	-	-	(22,496)	22,496	-	
Loans Fund principal repayments and Statutory premia	10,114	-	-	-	10,114	(10,114)	-	
Capital Expenditure charged to General Fund balance	531	-	-	-	531	(531)	-	
Employers contribution payable to Pension Fund	11,250	-	-	-	11,250	(11,250)	-	
Net (Increase)/Decrease before transfers	(6,012)	(1,263)	-	-	(7,275)	(41,269)	(48,544)	
Net Transfers to or (from) other reserves	1,841	2,237	(63)	(7)	4,007	(4,007)	-	
(Increase)/Decrease in 2014/15	(4,171)	974	(63)	(7)	(3,268)	(45,276)	(48,544)	
Balance at 31/03/2016	(23,163)	(6,578)	(102)	(1,321)	(31,164)	(35,697)	(66,861)	31

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2014/15			2015/16				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
118,088	(4,506)	113,582	Education	118,565	(3,257)	115,308	
38,676	(33,469)	5,208	General Fund Housing Services	37,769	(33,138)	4,631	
16,335	(1,942)	14,394	Cultural & Related Services	17,804	(2,608)	15,196	
22,460	(2,852)	19,608	Environmental Services	25,380	(3,394)	21,986	
24,404	(5,844)	18,560	Roads & Transport Services	29,449	(6,545)	22,904	
8,661	(4,376)	4,285	Planning & Development Services	7,387	(3,298)	4,089	
84,144	(14,947)	69,197	Social Work	87,431	(15,357)	72,074	
8,439	(1,434)	7,004	Central Services	9,218	(1,890)	7,328	
685	-	685	Non-Distributed Costs	1,614	(201)	1,413	
321,892	(69,370)	252,522	Services provided by the Council	334,617	(69,688)	264,929	
321,892	(69,370)	252,522	Net Cost of Services	334,617	(69,688)	264,929	
		(165)	Roads Trading Operation (Surplus)/Deficit (External)			(98)	8
		288	Other Operating Expenditure (Gain)/Loss on Disposal of Assets			652	
		11,806	Financing & Investment Income and Expenditure Interest Payable & Similar Charges			12,320	} 29
		(48)	Interest Receivable & Similar Income			(60)	
		8,973	Net Interest Expense on the Net Defined Benefit Liability			5,580	20
		(175,625)	Taxation and Non-Specific Grant Income Revenue Support Grant			(178,870)	
		(31,013)	Non-Domestic Rates Pool for Scotland			(33,707)	
		(46,149)	Council Tax			(46,593)	
		(20,768)	Capital Grants and Contributions			(28,939)	28
		(179)	(Surplus)/Deficit on Provision of Services			(4,786)	

Comprehensive Income and Expenditure Account

2014/15				2015/16			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
		(179)	(Surplus)/Deficit on Provision of Services			(4,786)	
		96	(Surplus)/Deficit on revaluation of Non Current Assets			(8,032)	
		7	Any Other (Gains) Or Losses			-	
		(44,848)	Actuarial (gains)/losses on pension assets/liabilities			(35,726)	
		(44,745)	Other Comprehensive Income and Expenditure			(43,758)	
		(44,924)	Total Comprehensive Income and Expenditure			(48,544)	

Balance Sheet

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

2014/15 £'000		2015/16 £'000	Notes
290,444	Property Plant and Equipment		
14,621	Other Land and Buildings	302,841	12
86,483	Vehicle, Plant, Furniture & Equipment	15,019	
4,730	Infrastructure	89,035	
26,976	Surplus Assets	4,116	
1,014	Assets Under Construction	33,108	
295	Heritage Assets	1,014	13
5,223	Intangible Assets	230	14
	Long Term Debtors	6,412	29
429,786	Long Term Assets	451,775	
-	Intangible Assets - Current	676	14
52	Short Term Investments	-	
966	Inventories	1,020	24
38,219	Short Term Debtors	47,927	30
(8,838)	less Bad Debt Provision	(9,525)	
14,997	Cash and Cash Equivalents	16,476	34
45,396	Current Assets	56,574	
(3,243)	Short Term Borrowing	(3,261)	29
(49,026)	Short Term Creditors	(51,364)	
(1,299)	Provisions	(1,491)	25
(53,568)	Current Liabilities	(56,116)	
(172,076)	Long Term Borrowing	(171,996)	29
(54,330)	Deferred Liabilities	(52,864)	
(517)	Due to Trust Funds and Common Good	(747)	
(3,809)	Provisions	(4,305)	25
(6,493)	Capital Grants Receipts in Advance	(13,868)	
(237,225)	Long Term Liabilities	(243,780)	
184,389	Net Assets excluding pension liability	208,453	
(166,072)	Pension Liability	(141,592)	20
18,317	Net Assets/(Liabilities) including pension liability	66,861	

Balance Sheet

2014/15 £'000	Financed By:	2015/16 £'000	Notes
	Useable Reserves		
(7,552)	Capital Fund	(6,578)	} 31
(18,991)	General Fund Balance	(23,163)	
(39)	Property Maintenance Fund	(102)	
(1,314)	Insurance Fund	(1,321)	
	Unusable Reserves		
(103,407)	Capital Adjustment Account	(118,459)	} 31
5,395	Financial Instruments Adjustment Account	5,189	
(65,671)	Revaluation Reserve	(70,201)	
166,072	Pension Reserve	141,592	
7,190	STACA Statutory Mitigation Account	6,182	
(18,317)	Total Reserves	(66,861)	

The unaudited accounts were issued on 30 June 2016 and the audited accounts were authorised for issue on 29th September 2016.

David Robertson CPFA
 Chief Financial Officer
 29th September 2016

Cash Flow Statement

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

2014/15 £'000		2015/16		Notes
		£'000	£'000	
(179)	Net (Surplus) or deficit on the provision of services	(4,786)		
(34,144)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(37,503)		32
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,203		32
(15,122)	Net Cash Flows From Operating Activities		(14,086)	
	Investing Activities			
32,018	Purchase of PP&E, investment property and intangible assets	46,267		
(745)	Proceeds from PP&E, investment property and intangible assets	(1,263)		
52	Purchase/(Disposal) of short & long term investments	(52)		
(21,627)	Other Items which are Investing Activities	(34,607)		
9,698	Net Cash Flows from Investing Activities		10,345	
	Financing Activities			
(219)	Cash received from loans & other borrowing	-		
1,921	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,462		
167	Repayments of short and long term borrowing	63		
2,250	Other items which are financing activities	737		
4,119	Net Cash Flows from Financing Activities		2,262	
(1,305)	Net (Increase) or Decrease in Cash and Cash Equivalents		(1,479)	
13,692	Cash and Cash Equivalents at the beginning of the reporting period		14,997	
14,997	Cash and Cash Equivalents at the end of the reporting period		16,476	34
(1,305)	Movement		(1,479)	

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

Accruals of Income and Expenditure

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

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

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

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

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

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

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

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption. CRC allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset will be reduced by the allowances surrendered and the provision decreased.

Accounting Policies

Cash and Cash Equivalents

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

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

Charges to Revenue for Non-Current Assets

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

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

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

Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post Employment Benefits

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

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

Accounting Policies

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

The Local Government Pension Scheme

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

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

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

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

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

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

Service cost comprising:

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

Remeasurements comprising:

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

Accounting Policies

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Scottish Borders Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have been a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Financial Instruments

Financial assets and liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument.

Accounting Policies

Financial Liabilities:

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

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

Financial Assets:

Financial assets can be classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available for sale assets – assets that have a quoted market price and/or do not have a fixed or determinable payments.

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

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

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

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

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

Accounting Policies

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

Fair Value Measurement:

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

Government Grants

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

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

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

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

Accounting Policies

Heritage Assets

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

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

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

Accounting Policies

Intangible Assets

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

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

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

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

Inventories

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

Investment Property

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

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

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

Accounting Policies

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SerCop). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Accounting Policies

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

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

Private Finance Initiative (PFI)

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Accounting Policies

Measurement: assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

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

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

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

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would

Accounting Policies

otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Notes to the Core Financial Statements

Note 1 First Time Adoption of Accounting Standards

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, the following Adopted IFRS has been applied for the first time in 2015/16.

IFRS13 Fair Value Measurement

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

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Note 3 Critical Judgements in Applying Accounting Policies

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

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

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

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

Notes to the Core Financial Statements

Note 5 Segmental Reporting

The Code requires that Councils analyse financial performance of their operations in the Comprehensive Income and Expenditure Statement using the service analysis included in the Service Reporting Code of Practice.

However, it may be more relevant to review financial performance according to how the authority has been managed, with information corresponding with that used by management in making decisions.

The income and expenditure of the Council's principle departments, which has been used by management in making decisions, can be summarised by subjective level as shown below:

Various items are not reported to management or included in Net Cost of Services and these are year end accounting adjustments such as IAS19 and depreciation etc. There is a difference in the income figures between the department reconciliation and the CI&ES; this is due to the fact that CI&ES only reports external income.

Departmental Income and Expenditure 2015/16

	Chief Executive £'000	People £'000	Place £'000	Other £'000	Total £'000
Employee Costs	18,529	85,841	31,643	2,604	138,617
Premises Costs	2,176	8,575	5,964	2,258	18,973
Transport Costs	375	6,226	17,207	9	23,817
Supplies & Services Costs	6,437	10,452	12,207	6,495	35,590
Third Party Payments	6,485	71,183	5,292	687	83,647
Transfer Payments	-	1,028	-	30,322	31,350
Support Services	6	1,128	560	85	1,779
Capital Charges	89	-	(7)	18,250	18,332
Income	(6,508)	(18,231)	(35,879)	(31,262)	(91,880)
	27,589	166,202	36,987	29,447	260,225

Reconciliation to Subjective Analysis 2015/16

The reconciliation of departmental Income and Expenditure to Net Cost of Services and the (Surplus)/Deficit on the provision of services in the Comprehensive Income and Expenditure Statement (CI&ES) is set out below:

	Departmental Analysis £'000	Amounts not in Net Cost of Services £'000	Not reported to Management £'000	Not included in CI&ES £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employee Costs	138,617	98	4,655	-	143,370	5,580	148,950
Premises Costs	18,973	-	(65)	-	18,908	-	18,908
Transport Costs	23,817	-	(107)	-	23,710	-	23,710
Supplies & Services Costs	35,590	(5,227)	(50)	-	30,313	-	30,313
Third Party Payments	83,647	(4,734)	-	-	78,913	-	78,913
Transfer Payments	31,350	-	-	-	31,350	-	31,350
Support Services	1,779	-	24,096	-	25,875	-	25,875
Capital Charges	18,332	(9,598)	28,353	(8,652)	28,435	12,971	41,406
Income	(91,880)	32	(24,096)	-	(115,944)	(288,267)	(404,211)
	260,225	(19,429)	32,786	(8,652)	264,930	(269,716)	(4,786)

The total of £4.786m refers to the Surplus on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 42.

Notes to the Core Financial Statements

Departmental Income and Expenditure 2014/15

	Chief Executive £'000	People £'000	Place £'000	Other £'000	Total £'000
Employee Costs	18,936	99,023	30,984	1,206	150,149
Premises Costs	2,297	9,162	5,703	2,218	19,379
Transport Costs	404	6,993	17,030	2	24,429
Supplies & Services Costs	7,207	12,117	10,765	6,853	36,941
Third Party Payments	7,397	53,885	3,845	660	65,788
Transfer Payments	3	992	-	30,372	31,366
Support Services	23	913	447	92	1,475
Capital Charges	90	-	25	19,244	19,359
Income	(7,552)	(19,435)	(32,991)	(31,203)	(91,181)
	28,805	163,650	35,808	29,444	257,707

Reconciliation to Subjective Analysis 2014/15

	Departmental Analysis £'000	Amounts not in Net Cost of Services £'000	Not reported to Management Restated £'000	Not included in CIES £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employee Costs	150,149	165	2,296	-	152,610	8,973	161,583
Premises Costs	19,379	-	273	-	19,652	-	19,652
Transport Costs	24,429	-	(56)	-	24,373	-	24,373
Supplies & Services Costs	36,941	(5,550)	(936)	-	30,455	-	30,456
Third Party Payments	65,788	(4,795)	-	-	60,993	-	60,993
Transfer Payments	31,366	-	-	-	31,366	-	31,366
Support Services	1,475	-	23,720	-	25,195	-	25,195
Capital Charges	19,359	(10,095)	22,633	(9,140)	22,757	12,093	34,850
Income	(91,181)	20	(23,720)	-	(114,881)	(273,767)	(388,648)
	257,707	(20,255)	24,210	(9,140)	252,520	(252,701)	(179)

The total of £0.179m refers to the Deficit on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 42.

Notes to the Core Financial Statements

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2015/16 financial year.

Note 7 Prior Year Adjustments

There have been no prior year adjustments made in 2015/16.

Note 8 Significant Trading Operation

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

2014/15 £'000		2015/16 £'000	3 Year Cumulative £'000
(19,203)	Turnover for the Year	(14,363)	(45,131)
(54)	(Surplus) / Deficit	(384)	(1,510)

SBc Contracts undertakes a wide range of activities including:

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

SBc Contracts employs 45 manual workers and 15 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The organisation continued to contribute strongly to Council resources both directly and indirectly through:

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

In 2015/16 SBc Contracts recorded an annual surplus of £0.384m against a revised budget target of a £0.4m surplus.

In 2015/16 turnover decreased by £5m, or 26% to £14.3m. An exceptional turnover was achieved in 2014/15 due to a number of significant projects including the Borders Railway, the completion of these projects has resulted in the turnover returning to normal levels. Despite this decrease, the Surplus as a % of turnover has only reduced by 0.1% to 2.7%. Of the total turnover, £6.7 million (46.6%) was generated by external work, a decrease of £4.1 million (38% year on year), principally as a result of the completion of the new Borders Railway. The order book remains strong with major works planned or underway on the new Kelso High School, Langlee Primary School, Old Tweed Bridge, Bowanhill Bridge and Groundworks for 3 Projects in Edinburgh for an external client.

SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £5 million during 2015/16. Within the overall £0.384 million surplus generated in 2015/16, £0.098 million was generated from external work and £0.286 million was generated from internal work.

Significant trading operations are required to at least achieve break-even over rolling three-year periods. For the 3 year period ending in financial year 2015/16 SBc Contracts recorded a surplus in each of the three years and generated a cumulative total surplus of £1.510 million.

Notes to the Core Financial Statements

Note 9 Agency Work

The Council acts as an intermediary for Scottish Water, collecting money on their behalf. In 2015/16 Scottish Borders Council received £0.358m in commission from Scottish Water as part of the agency agreement. This amount is set in legislation by the new Water Order which came into force in April 2014 covering the period April 2014 to March 2018.

Note 10 Related Parties

The Council is required to disclose material transactions with related parties, that is bodies and individuals that have the potential to control or influence the Council or be controlled and influenced by the Council.

Central Government has effective control over the general operations of the Council by providing the statutory framework in which the Council operates, the majority of the Council's funding by providing grants and prescribes the nature of many of the transactions the Council has with third parties, e.g. Housing Benefit.

Members of the Council have direct control over the financial and operating policies of the Council. A review of the interests declared in the Members' Register of Interests confirmed that the Council had no material transactions with any company in which any member had an interest. The Remuneration Report shows the total allowances paid to senior members in 2015/16. The Members' Register of Interests can be inspected and is available on the Council's web site at www.scotborders.gov.uk

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

During 2015/16, the Scottish Borders Council Pension Fund had an average balance of £1.797m (2014/15: £6.603m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.01m (2014/15: £0.022m). In addition the Council charged the Pension Fund £0.339m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement is as follows:

	2014/15	2015/16
Due to/(from) the Scottish Borders Council Pension Fund	£(0.136)m	£(0.671)m

The Council provided routine material financial assistance to other bodies in 2015/16 as follows:

- Borders Sport and Leisure Trust £1.348m
- Jedburgh Leisure Facilities Trust £0.118m
- VisitScotland £0.108m

Notes to the Core Financial Statements

In addition the Council was engaged in the following areas of joint working with NHS Borders:

Resource Transfer – a total of £2.530m was transferred from NHS Borders and utilised as follows:

Children's Services	£0.105m
Older People	£1.282m
Adults with Learning Difficulties	£0.968m
People with Mental Health Needs	£0.126m
Support Services	£0.049m

Other funding from NHS Borders in 2015/16 to support services are:

Older people	£0.068m
Adults with Learning Difficulties	£1.204m
People with Mental Health Needs	£0.278m
People with Physical Difficulties	£0.073m
Other Support Services	£0.514m

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.922m in 2015/16 with a contribution from the NHS Borders of £0.405m.

Galashiels Resource Centre

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

Scottish Borders Council is a corporate member of Tweedside NHT 2011 LLP and Bridge Homes LLP, which have been established to assist in the delivery of affordable housing, in accordance with the Scottish Government's National Housing Trust (NHT) initiative. The Council has consent to borrow (from the Scottish Government) to finance loans to Tweedside NHT 2011 LLP and Bridge Homes LLP in respect of housing units. The Council made no further advances to Tweedside NHT 2011 LLP during 2015/16 and received no capital repayment from the LLP during the same period. The Council paid £1.49m in respect of advances to Bridge Homes LLP during 2015/16 and again received no capital repayment in the year. The Council received interest on the advance from both LLP's. The Council's net advances to Tweedside NHT 2011 LLP and Bridge Homes LLP are shown within long term debtors on the Council's balance sheet. Bridge Homes LLP have been consolidated into the Council's Group Accounts as a Subsidiary.

SB Supports is a registered Limited Liability Partnership between Scottish Borders Council and SBC Nominees. This was established on 1st April 2015 to work in partnership on the provision of adult social care services. In 2015/16 the Council made a payment of £17.521m to SB Supports.

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. As there has only been a small amount of staffing expenditure incurred in 2015/16 we have decided, after seeking an opinion from our external auditors KPMG, that this will not be consolidated into the Council's Group Accounts as a joint venture (in accordance with IFRS11) until 2016/17.

Note 11 Audit Remuneration

In 2015/16 the agreed audit fee for the year was £0.264m in respect of services provided by KPMG (2014/15 £0.274m). This amount includes fees payable to Audit Scotland and covers the audit of Scottish Borders Council's Annual Accounts. The reduction in Audit Fee from 2014/15 can be attributed to the establishment of SB Cares & SB Supports which has transferred some of the audit work from the Council to the new organisation. A further £7,000 fee was agreed in respect of services provided by KPMG in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2015/16

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

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2015/16.

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

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

Negative revaluations are shown within the stated figures for impairment. In 2015/16 this amounted to a NBV of £8.051m.

For net impairments £8.880m was charged to the CIES (14/15 £3.373m) and £0.297m charged to the Revaluation Reserve (£0.430m in 14/15)

Notes to the Core Financial Statements

Comparative Movements in 2014/15

	Property Plant & Equipment					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 2014	309,884	50,201	152,741	18,452	7,123	997	539,398
Acquisitions & Recognition in the year	7,461	6,713	6,311	13,696	12	17	34,210
Transfers between categories	1,437	6	3,069	(3,069)	(1,437)	-	6
Revaluations	-	-	-	-	187	-	187
Impairments	(556)	(523)	-	(2,103)	(721)	-	(3,903)
Disposals	(763)	(856)	(3)	-	(298)	-	(1,920)
Gross book value (GBV) at 31 March 2015	317,463	55,541	162,118	26,976	4,866	1,014	567,978
Cumulative depreciation at 31 March 2014	(18,259)	(36,077)	(69,450)	-	(402)	-	(124,188)
Depreciation for the year	(8,667)	(5,668)	(6,185)	-	(141)	-	(20,661)
Transfers between categories	(152)	-	-	-	152	-	-
Revaluations	-	-	-	-	152	-	152
Impairments	21	-	-	-	79	-	100
Disposals	38	825	-	-	24	-	887
Cumulative depreciation at 31 March 2015	(27,019)	(40,920)	(75,635)	-	(136)	-	(143,710)
Net book value at 31 March 2015	290,444	14,621	86,483	26,976	4,730	1,014	424,268
Net book value at 31 March 2014	291,625	14,124	83,291	18,452	6,721	997	415,210

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2016 the Council has entered into a number of commitments for the construction or enhancement of Property, Plant and Equipment in future years, this is budgeted to cost £14.96m. These commitments can be categorised as follows:-

	Capital Commitments as at 31 March 2016 £'000
Place	5,861
People	9,085
Chief Executive	18
Total	14,964

Valuation and Depreciation

Land and Buildings

- The Council has adopted a 5-year rolling programme of revaluations whereby each individual asset will be examined during that term in line with events and planned capital expenditure. During 2015/16 the fixed assets relating to Technical Services and Surplus Properties were re-valued. The valuation is an ongoing process carried out throughout the year to arrive at the final valuation figure.
- Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. In accordance with IFRS13 Fair Value measurement, Surplus assets are now valued at highest and best use. Properties were valued by the Council's Estates Manager, N.Hastie MRICS.

Vehicles, Plant, Furniture and Equipment

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

Infrastructure

- Infrastructure was valued at depreciated historic cost.

Depreciation

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

Depreciation has been directly charged to services.

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 2015 – Technical Services and Surplus Properties
- 1 April 2014 – Common Good, Trust and Surplus Properties
- 1 April 2013 – Planning & Economic Development, New West Linton Primary School and Surplus Properties
- 1 April 2012 – Education & Lifelong Learning and Surplus Properties
- 1 April 2011 – Social Work, Resources and Surplus Properties

Social Work Properties will be revalued as at 1 April 2016 with the resulting adjustments incorporated into the 2016/17 accounts of the Council.

	Property Plant & Equipment					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	85,758	58,650	171,052	33,108	(1,902)	1,014	347,680
New Certified Valuation							
1st April 2015	7,742	273	89	-	234	-	8,338
1st April 2014	-	-	-	-	339	-	339
1st April 2013	9,618	-	9	-	340	-	9,967
1st April 2012	21,643	-	-	-	389	-	22,032
1st April 2011	211,198	-	-	-	4,840	-	216,038
Gross book value (GBV) at 31 March 2016	335,959	58,923	171,150	33,108	4,240	1,014	604,394

Notes to the Core Financial Statements

Note 13 Heritage Assets

	Museum Collection £'000	Fine Arts Collection £'000	Monuments, Memorials & Statues £'000	Totals Tangible Fixed Assets £'000	Total Heritage Assets £'000
Cost or Valuation at 31 March 2014	161	771	65	997	997
Additions	-	-	17	17	17
Cost or Valuation at 31 March 2015	161	771	82	1,014	1,014
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2016	161	771	82	1,014	1,014

There were no revaluations of heritage assets during the year.

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

Museum Collection

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

Fine Arts Collection

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

Archive Centre Collection

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

Monuments, Memorials and Statues Collection

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

Notes to the Core Financial Statements

Note 14 Intangible Assets

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

2014/15 £'000		2015/16 £'000
3,396	Gross book value (GBV) at 31 March	3,550
166	Expenditure in the year	199
(6)	Transfers	-
(6)	Impairments	(46)
-	Disposals	(1,878)
3,550	Gross book value (GBV) at 31 March	1,825
(3,031)	Cumulative amortisation at 31 March	(3,255)
(224)	Amortisation for the year	(218)
-	Disposals	1,878
(3,255)	Cumulative amortisation at 31 March	(1,595)
295	Net book value at 31 March	230

There were no revaluations of intangible assets in 2015/16.

Carbon Reduction Commitment allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset will be reduced by the allowances surrendered and the liability (shown within provisions on page 80) decreased.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2014/15 or 2015/16.

Note 16 Private Finance Initiatives and Similar Contracts

During 2006/07 the Council entered into a Public Private Partnership (PPP) for the provision of new secondary schools in Earlston, Duns and Eyemouth. These assets are recognised on the Council's Balance Sheet.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2016 are as follows:

	Repayment of liability and Service Charge	Interest	Total
	£'000	£'000	£'000
Payable in 2016/17	5,746	2,742	8,488
Payable within two to five years	24,618	10,144	34,762
Payable within six to ten years	37,863	10,707	48,570
Payable within eleven to fifteen years	46,757	8,195	54,952
Payable within sixteen to twenty years	57,365	4,809	62,174
Payable within twenty one to twenty five years	35,655	831	36,486
Total	208,004	37,428	245,432

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

Notes to the Core Financial Statements

Note 17 Leases

Council as Lessee

Finance Leases

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

2014/15 £'000		2015/16 £'000
53,079	Net Asset Value	
	Land and buildings	51,783
53,079		51,783

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

Land & Buildings 2014/15 £'000		Land & Buildings 2015/16 £'000
	Finance Lease Liabilities	
1,812	Not later than 1 year	1,816
6,538	Later than 1 year and not later than 5 years	6,445
47,792	Later than 5 years	46,419
	Finance Costs Payable in Future Years	
2,776	Not later than 1 year	2,743
10,260	Later than 1 year and not later than 5 years	10,144
25,657	Later than 5 years	24,542
94,835	Minimum Lease Payments	92,109

The contingent rental figure, recognised as an expense in 2015/16 in respect of the Council's PPP arrangements, was £0.84m (2014/15 £0.82m).

Operating Leases

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

2014/15 £'000		2015/16 £'000
109	Not later than 1 year	94
60	Later than 1 year and not later than 5 years	38
169	Total	132

Notes to the Core Financial Statements

Council as Lessor

Finance Leases

The Council has no finance leases as lessor.

Operating Leases

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

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

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

2014/15 £'000		2015/16 £'000
1,323	Not later than one year	1,566
1,701	Later than one year and not later than five years	1,837
6,543	Later than five years	6,667
9,567	Total	10,070

Note 18 Capital Expenditure and Capital Financing

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

2014/15 £'000		2015/16 £'000	
258,448	Opening capital financing requirement		260,287
	Capital Investment		
986	Consent to Borrow - National Housing Trust	1,357	
31,358	Property, plant and equipment	44,612	
2,855	Asset Decommissioning Provision	-	
166	Intangible assets	199	46,168
	Sources of Finance		
(356)	Capital Receipts	(1,524)	
(22,240)	Government grants and other contributions	(31,887)	
(112)	NHT Repayment of Principal	-	
(10,818)	Loans fund repayments	(10,114)	(43,525)
260,287	Closing Capital Financing Requirement		262,930

Notes to the Core Financial Statements

2014/15 £'000		2015/16 £'000
1,839	Explanation of Movements in Year Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)	2,643
1,839	Increase in capital financing requirement	2,643

Note 19 Termination Benefits

During 2015/16 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 71 employees, incurring liabilities of £2.234m - see the Remuneration Report for further detail on the exit packages granted and total cost per band. These packages are attributable to various areas throughout the Council.

Note 20 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two formal pension schemes:

The Local Government Pension Scheme is a funded defined benefit career average salary pension scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, as amended and contracted out of the State Second Pension (This arrangement is no longer applicable from 1st April 2016). The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

The Teachers' Pension Scheme is a defined benefit scheme. However it is accounted for as a defined contribution scheme. Further details can be found at Note 21.

Transactions relating to retirement benefits

The Council recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Notes to the Core Financial Statements

2014/15 £'000	Comprehensive Income and Expenditure Statement	2015/16 £'000
	<i>Cost of Services</i>	
16,394	Current Service Costs	17,407
1,094	Past Service Costs, including curtailments	985
	<i>Financing and Investment Income and Expenditure</i>	
8,973	Net Interest Expense	5,580
26,461	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	23,972
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(37,379)	Return on plan assets (excluding the amount included in the net interest expense)	10,486
(35,030)	Actuarial gains and losses arising on changes in demographic assumptions	-
75,272	Actuarial gains and losses arising on changes in financial assumptions	(45,911)
(47,711)	Other	(301)
(44,848)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(35,726)
	<i>Movement in Reserves Statement</i>	
12,522	Reversal of net charges made for retirement benefits in accordance with the Code	11,246
	Actual amount charged against the General Fund Balance for pensions in the year	
12,517	Employers' contributions payable to the scheme	11,250
1,422	Retirement benefits payable to pensioners	1,476

Pension Assets and Liabilities Recognised in the Balance Sheet

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

2014/15 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2015/16 £'000
651,085	Present value of the defined benefit obligation	627,664
(485,013)	Fair value of plan assets	(486,072)
166,072	Sub total	141,592
166,072	Net liability arising from defined benefit obligation	141,592

Notes to the Core Financial Statements

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £141.6m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, reducing the overall net asset value to £66.9m.

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

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

2014/15 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2015/16 £'000
433,450	Opening Fair Value of Scheme Assets	485,013
19,477	Interest Income	15,938
	Remeasurement (gains) and losses:-	
37,379	Return on plan assets, excluding the amount included in the net interest expense	(10,486)
(4,012)	Other	(294)
13,939	Employer Contributions including unfunded pensions	12,726
3,994	Contributions by Scheme Participants	3,518
(19,214)	Estimated Benefits Paid	(20,343)
485,013	Closing Fair Value of Scheme Assets	486,072

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

2014/15 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2015/16 £'000
631,848	Opening Defined Benefit Obligation	651,085
16,394	Current Service Cost	17,407
28,124	Interest Cost	21,224
3,994	Contributions by Scheme Participants	3,518
	Remeasurement (gains) and losses:-	
(35,030)	Actuarial (gains)/losses arising from changes in demographic assumptions	-
75,272	Actuarial (gains)/losses arising from changes in financial assumptions	(45,911)
(51,397)	Other	(301)
1,094	Past Service Cost	985
(17,792)	Benefits Paid	(18,867)
(1,422)	Unfunded Pension Payments	(1,476)
651,085	Closing Defined Benefit Obligation	627,664

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2016.

Notes to the Core Financial Statements

Local Government Pension Scheme assets comprised:-

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

2014/15 £'000	Local Government Pension Scheme assets comprised:	2015/16 £'000
3,076	Cash and cash equivalents	1,272
	Equity Instruments	
	<i>By industry type</i>	
46,633	Consumer	41,630
42,355	Manufacturing	43,139
8,780	Energy and utilities	6,511
53,965	Financial Institutions	47,689
8,848	Health and Care	11,217
31,398	Information Technology	38,060
191,979		188,246
	Bonds	
	<i>By sector</i>	
44,244	UK Corporate	43,347
8,182	UK Government	8,752
52,426	Other	52,099
	Investment Funds - Quoted in Active Market	
58,573	Managed Fund - UK Equities Passive	55,897
68,784	Managed Fund - Global Equities	74,284
1,476	Managed Fund - Smaller Companies	1,534
26,098	Managed Fund - Property	29,896
154,931		161,611
	Investment Funds - Not Quoted	
82,601		82,844
485,013	Total Assets	486,072

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

2014/15 £'000	Fair Value of Scheme Assets	2015/16 £'000
	Equity instruments:	
	<i>By company size</i>	
191,979	Large capitalisation	188,246

Notes to the Core Financial Statements

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2014.

The principal assumptions used by the actuary are shown below

2014/15	Basis for Estimating Assets and Liabilities	2015/16
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
22.70	Men	22.80
23.60	Women	23.70
	- longevity at 65 for future pensioners (years)	
24.90	Men	25.00
25.90	Women	26.00
3.2%	Rate of inflation - RPI	3.3%
2.4%	Rate of inflation - CPI	2.4%
1.0%	Rate of increase in salaries	0.9%
2.4%	Rate of increase in pensions	2.4%
3.3%	Rate for discounting scheme liabilities	3.7%

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

2014/15		Category Analysis of the Scheme Assets as at 31 March 2015	2015/16	
%	£'000		%	£'000
66	320,811	Equities	66	319,960
2	8,182	Gilts	2	8,752
9	44,244	Other Bonds	9	43,347
5	26,099	Property	6	29,896
1	3,076	Cash	0	1,272
17	82,601	Multi-Asset Fund	17	82,845
100	485,013	Total	100	486,072

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

Notes to the Core Financial Statements

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease 0.1%)	616,492	639,050
Adjustment to long term salary increase (increase or decrease 0.1%)	628,993	626,341
Adjustment to pension increases and deferred revaluation (increase or decrease 0.1%)	637,855	617,663
Adjustment to mortality rating assumption (increase or decrease 1 year)	646,887	609,030

Note 21 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2015/16 the Council paid £6.987m to teachers' pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay for the period to 31st August 2015 and 17.2% of pensionable pay for the remainder of the financial year (£6.470m and 14.9% in 2014/15). The employer's contribution rate has increased as a result of a revaluation of the Scottish Teacher's pension scheme under the Public Service Pensions Act 2013. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, teachers' pensions use a notional fund as the basis for calculating the employer's contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of these Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement and added years it has awarded outside of the terms of the teachers' Scheme. In 2015/16 these amounted to £0.695m representing 1.64% of pensionable pay (£0.623m and 1.43% in 2014/15).

Note 22 Scottish Borders Council Pension Fund

Scottish Borders Council manages and administers this Fund which provides pensions and other benefits to its employees and a further 17 employers in the Scottish Borders. As at 31 March 2016 there were 9,587 members.

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

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

Note 23 Events After the Balance Sheet Date

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

Notes to the Core Financial Statements

Note 24 Inventories

2014/15 £'000		2015/16 £'000
923	Balance outstanding at start of year	966
3,549	Purchases	3,136
(3,523)	Recognised as an expense in the year	(3,112)
17	Written back balances	30
966	Balance outstanding at year-end	1,020

Note 25 Provisions

Provisions are recognised in the accounts when:

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

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

	Contractual Claims £'000	Equal Pay £'000	Voluntary Severance / Early Retirement £'000	Carbon Reduction Commitment Energy Efficiency Scheme £'000	Police Potential Clawback £'000	Asset Decommissioning £'000	CRC Purchased Allowances £'000	Total £'000
Balance at 1 April 2015	(60)	(256)	(342)	(322)	(108)	(4,020)	-	(5,108)
Additional charges to provisions	(172)	-	(209)	(290)	-	(141)	(676)	(1,488)
Payments made or released	58	14	274	315	-	139	-	800
Balance at 31 March 2016	(174)	(242)	(277)	(297)	(108)	(4,022)	(676)	(5,796)
Within 12 Months	(174)	(242)	(277)	(297)	(108)	(177)	(216)	(1,491)
Over 12 months	-	-	-	-	-	(3,845)	(460)	(4,305)
Total	(174)	(242)	(277)	(297)	(108)	(4,022)	(676)	(5,796)

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- The Council is a scheme creditor of Municipal Mutual Insurance Limited (MMI). This organisation ceased operations in 1992 and has outstanding claim liabilities that are currently being managed by a board until the liabilities are extinguished. This will remain the position until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required. As the final costs and timing of any further Council contributions cannot therefore be estimated with reasonable accuracy, no further provision has been made in the financial statements in respect of any potential additional payments at this stage. The remaining contingent liability at the Balance Sheet date in respect of claim payments to date, net of the initial levy paid, is £322,548, though MMI have stated that the first £50,000 of this will be free of any levy. The estimate of outstanding claims relating to the Council that have not yet been paid is £27,337 at the Balance Sheet date.

Notes to the Core Financial Statements

Note 26 Contingent Liabilities

- There has been a European Court of Justice ruling relating to workers annual leave payment entitlement. The financial implications of this judgement for Scottish Borders Council are unclear at present and therefore the Council, in agreement with our external auditors, have included this as a contingent liability in this years` annual accounts.
- The Council has a commitment to provide Bridge Homes LLP with a loan facility up to a maximum value of £18.8m over a period of time; this will allow Bridge Homes LLP to deliver affordable housing in the Scottish Borders in line with the Council's Local Housing Strategy. Bridge Homes LLP aims to deliver up to 200 homes for mid-market rent. Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council; the loan is secured over the properties as per the Facility Agreement.
- The Council has agreed to act as guarantor for SB Cares and Border Sport and Leisure Trust with regards to their admission to the Scottish Borders Pension Fund. Should either SB Cares or BSLT be unable to meet their pension obligations, Scottish Borders Council as guarantor would be liable to do so.

Note 27 Contingent Assets

The following Contingent Assets are noted:

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

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2015/16.

2014/15 £'000		2015/16 £'000
	Credited to Taxation and Non Specific Grant Income	
(9,677)	General Capital Grant	(11,007)
(3)	Borders Railway	-
(10,929)	Other Grants	(17,569)
(159)	Developer Contributions	(363)
(20,768)	Total	(28,939)
	Credited to Services	
(209)	Education & Lifelong Learning	(227)
(31,473)	General Fund Housing	(31,073)
(23)	Cultural & Related Services	(13)
(586)	Environmental Services	(153)
(1,249)	Social Work	(1,201)
(1,819)	Central Services	(1,634)
(35,359)		(34,301)

Notes to the Core Financial Statements

Note 29 Financial Instruments

A financial instrument is any contract which gives rise to a financial asset within one and a financial liability within another. The term 'financial instrument' covers both financial liabilities and financial assets.

Fair Value Hierarchy:

Under IFRS 13 (Fair Value Measurement) the authority is required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. To achieve this objective, local authorities are required to follow the fair value hierarchy, which categorises the inputs to valuation techniques used to measure fair value into the three levels as listed below:

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

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

Level 3 – unobservable inputs for the asset or liability.

Fair Value Hierarchy For Financial Assets And Liabilities That Are Not Measured At Fair Value

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

	31st March 2015			
	Quoted Prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) - Restated £'000	Significant unobservable inputs (Level 3) £'000	Total - Restated £'000
Financial Liabilities				
Financial Liabilities held at amortised cost:				
PWLB debt	-	(233,428)	-	(233,428)
Other debt	-	(54,819)	-	(54,819)
Total	-	(288,247)	-	(288,247)

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

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Notes to the Core Financial Statements

Financial Instruments - Balances

The following categories of financial instrument are carried on the Council's Balance Sheet:

	Long-Term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Loans and Receivables				
Short Term Investments	-	-	52	-
Cash and Cash Equivalents	-	-	14,997	16,476
Debtors	5,223	6,412	29,381	38,402
Total Loans and Receivables	5,223	6,412	44,430	54,878
Borrowings				
Financial Liabilities (principal amount)	(172,076)	(171,996)	-	-
Accrued interest	-	-	(3,243)	(3,261)
Total Borrowings	(172,076)	(171,996)	(3,243)	(3,261)
Other Liabilities				
PPP and finance lease liabilities	(54,330)	(52,864)	(1812)	(1,816)
Bonds	-	-	(1,181)	(1,420)
Total other long-term liabilities	(54,330)	(52,864)	(2,993)	(3,236)
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(46,033)	(48,128)
Total Creditors	-	-	(46,033)	(48,128)

Borrowing is taken principally from the Public Works Loans Board (PWLB), but is also taken from the money market, to meet the Council's overall capital financing requirements.

The following table shows a breakdown of borrowing:

31 March 2015			31 March 2016	
£'000	%		£'000	%
(44,444)	25	Bonds and Mortgages	(44,365)	25
(127,632)	73	Public Works Loan Board	(127,631)	73
(172,076)	98	Long term borrowing (> 1 year)	(171,996)	98
(3,243)	2	Short Term Borrowing repayable within 12 months	(3,261)	2
(175,319)	100	Total Borrowing	(175,257)	100

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2015 £'000		2016 £'000
(3,243)	Less than 1 year	(3,261)
-	Between 1 and 2 years	-
(12,061)	Between 2 and 7 years	(12,979)
(4,834)	Between 7 and 15 years	(3,853)
(155,181)	More than 15 years	(155,164)
(175,319)	Total	(175,257)

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

	2015/16		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	12,320	-	12,320
Interest payable and similar charges	12,320	-	12,320
Interest Income	-	(60)	(60)
Interest and investment income	-	(60)	(60)
Net (gain) / loss for the year	12,320	(60)	12,260

Notes to the Core Financial Statements

	2014/15		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	11,806	-	11,806
Interest payable and similar charges	11,806	-	11,806
Interest Income	-	(48)	(48)
Interest and investment income	-	(48)	(48)
Net (gain) / loss for the year	11,806	(48)	11,758

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures
- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	Restated £'000	£'000	£'000
PWLB debt	(130,350)	(233,428)	(130,371)	(236,795)
Other debt	(44,969)	(54,819)	(44,886)	(71,163)
Total debt	(175,319)	(288,247)	(175,257)	(307,958)
Creditors	(49,026)	(49,026)	(51,364)	(51,364)
Total financial liabilities	(224,345)	(337,273)	(226,621)	(359,322)

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables				
Short Term Investments	52	52	-	-
Cash and Cash Equivalents	14,997	14,997	16,476	16,476
Debtors	29,381	29,381	38,402	38,402
Total loans and receivables	44,430	44,430	54,878	54,878

Notes to the Core Financial Statements

All of the financial assets were of less than one year duration and therefore the fair value equates to the amortised cost on the balance sheet.

Note 30 Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its day to day obligations to make payments.
- **Re-financing risk** – the possibility that the Council may need to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are determined through a legal framework based on the Local Government in Scotland Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment regulations issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations.
- By approving annually in advance prudential indicators for the following three years limiting:
 - the Council's overall borrowing
 - its maximum and minimum exposures to fixed and variable rates
 - its maximum and minimum exposures to the maturity structure of its debt
 - its maximum annual exposures to investments maturing beyond a year
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government regulations.

These are required to be reported and approved at or before setting the Council's annual Council Tax budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each financial year, as is a mid-year update.

These policies are implemented by a central treasury team. The Council maintains a strategy for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

The annual Treasury Management Strategy for 2015/16 which incorporates the prudential indicators was approved by the Council on 11 February 2015. The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £307.2m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £272.4m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £272.3m and £95.3m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

Notes to the Core Financial Statements

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%

Credit Risk

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

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

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

The credit criteria in respect of financial assets held by the Council are detailed below

The Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2015/16 was approved by the Council on 11 February 2016 and is available on the Council's website: <http://www.scotborders.gov.uk/>

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2016 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses for non-performance by any of its counterparties in relation to its deposits.

Liquidity Risk

Liquidity risk is the risk that the Council may not have sufficient cash available to meet its day to day obligation to make payments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures that sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Notes to the Core Financial Statements

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt, and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, together with the maximum and minimum limits for fixed interest rates maturing in each period, as approved by the Council in the Treasury Management Strategy on 12 February 2015:

	Approved Minimum Limits £000	Approved Minimum Limits %	Approved Maximum Limits £000	Approved Maximum Limits %	Actual 31 March 2015 £000	Actual 31 March 2016 £000
Less than one year	-	-	63,650	20	3,243	3,261
Between one and two years	-	-	63,650	20	-	-
Between two and seven years	-	-	63,650	20	12,061	12,979
Between seven and fifteen years	-	-	63,650	20	4,834	3,853
More than fifteen years	50,220	20	254,600	80	155,181	155,164
Total					175,319	175,257

Market Risk

There are three main market risks to which the Council is exposed:

(i) **Interest Rate Risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise, and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

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

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

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

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

- (ii) **Price Risk** - The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.
- (iii) **Foreign Exchange Risk** - The Council has no financial assets or liabilities denominated in foreign currencies at the Balance Sheet date. It therefore has no exposure to loss arising from movements in exchange rates.

Debtor and Creditor Analysis

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

Debtors

2014/15 £'000		2015/16 £'000
2,463	Central government bodies	5,919
268	Other local authorities	193
1,696	NHS bodies	2,376
64	Public Corporations and Trading Funds	979
33,728	Bodies External to General Government	38,460
38,218		47,927

Creditors

2014/15 £'000		2015/16 £'000
(866)	Central government bodies	(3,903)
-	Other local authorities	(2)
(556)	NHS Bodies	(106)
(2,771)	Public Corporations and Trading Funds	(1,764)
(44,833)	Bodies External to General Government	(45,589)
(49,026)		(51,364)

Notes to the Core Financial Statements

Note 31 Movement in Reserves

A summary of all reserves movements are shown below:

	Balance as at 31 March 2015	Transfers between reserves and funds	Gains or Losses for the Year	Balance as at 31 March 2016
	£'000	£'000	£'000	£'000
Usable Reserves				
General Fund Balances	(18,991)	615	(4,786)	(23,162)
Capital Fund	(7,552)	974	-	(6,578)
Property Maintenance Fund	(39)	(63)	-	(102)
Insurance Fund	(1,314)	(7)	-	(1,321)
Unusable Reserves				
Capital Adjustment Account	(103,407)	(15,052)	-	(118,459)
Financial Instruments Adjustment Account	5,395	(206)	-	5,189
Revaluation Reserve	(65,671)	3,501	(8,032)	(70,202)
Pensions Reserve	166,072	11,246	(35,726)	141,592
STACA Statutory Mitigation Acct	7,190	(1,008)	-	6,182
Total	(18,317)	0	(48,544)	(66,861)

Usable Reserves

Usable reserves are those that can be applied to fund expenditure or reduce the requirement to raise local taxation.

The General Fund Balances are further analysed as follows:

2014/15	Analysis as at 31 March	2015/16
£'000		£'000
	Earmarked Reserves	
(1,722)	Education - Devolved School Management	(1,906)
	Specific Departmental Reserves	
(81)	Education	(1,817)
(284)	General Fund Housing Services	(238)
	- Cultural & Related Services	(29)
(263)	Environmental Services	(100)
	- Roads & Transport	(249)
(236)	Planning & Development Services	(158)
(906)	Social Work	(1,618)
(1,770)	Central Services	(2,572)
	- Revenue Support Grant	(1,676)
(1,500)	Treasury Reserve	(1,500)
(7,492)		(11,863)
(11,499)	Non-earmarked Reserve	(11,300)
(18,991)	Total General Fund Reserve	(23,163)

Notes to the Core Financial Statements

Unusable Reserves

Unusable reserves are those that the Council is not able to use to provide services

Capital Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Revaluation Reserve

The Revaluation Reserve contains the gains made by an Authority arising from increases in the value of its Property Plant and Equipment. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account

Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

STACA Statutory Mitigation Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Notes to the Core Financial Statements

Note 32 Cash Flow

2014/15		2015/16
£'000	Reconciliation to General Fund Surplus	£'000
(179)	Net (Surplus) or deficit on the provision of services	(4,786)
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(20,662)	Depreciation	(21,029)
(3,373)	Impairment & Revaluation Loss through I & E	(8,880)
(224)	Amortisation of intangible assets	(218)
(12,522)	Movement in pension liability	(11,246)
(288)	Gain/Loss on carrying amounts of assets disposed	(652)
44	Net movement in inventories charged to I & E	54
5,825	Net movement in debtors charged to I & E	9,607
(3,290)	Net movement in creditors charged to I & E	(5,129)
346	Net movement in provisions charged to I & E	(10)
(34,144)		(37,503)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
20,768	Capital grants received	28,939
(1,567)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(736)
19,201		28,203
(15,122)	Net Cash Outflow / (Inflow) from Operating Activities	(14,086)

Note 33

Impairment Losses

During 2015/16 SBC recognised a net impairment loss of £9.187m (£3.809m in 2014/15). A net cost of £8.880m impairment has been charged to the Comprehensive Income and Expenditure Statement and shown within the Net Cost of Services.

Note 34

Cash and Cash Equivalents

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

2014/15		2015/16
£'000		£'000
65	Cash held by officers	57
3,332	Bank current accounts	4,939
11,600	Short term deposits	11,480
14,997	Total	16,476

Supplementary Financial Statements

Council Tax Income Account

2014/15			2015/16	
£'000	£'000		£'000	£'000
	(57,337)	Gross Charges Levied		(57,679)
5,517		Less: Benefits	5,180	
5,517			5,180	
5,078		Discounts	5,179	
631		Provision for bad debts	634	
(38)		Miscellaneous	93	
	11,187			11,086
	(46,150)			(46,593)
	(46,150)	Total Income Credited to the Comprehensive Income & Expenditure Statement		(46,593)

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2015

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2015/16 £
A	16,525	6/9	11,017	722.67
B	12,740	7/9	9,909	843.11
C	6,937	8/9	6,166	963.56
D	5,862	9/9	5,862	1,084.00
E	6,340	11/9	7,749	1,324.89
F	4,660	13/9	6,731	1,565.78
G	4,289	15/9	7,148	1,806.67
H	455	18/9	910	2,168.00
Total	57,808		55,490	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(13,006)	
Estimated net income from a Council Tax of £1 for 2015/16			£42,484	

Note 2 Water and Waste Water Charges

The Council is required to bill and collect water and waste water charges on domestic properties along with Council Tax as part of an agency agreement. These charges were determined by Scottish Water and for 2015/16 the Band D charges were £193.14 for water and £224.19 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

2014/15			2015/16	
£'000	£'000		£'000	£'000
	(37,295)	Gross Rates Levied & Contribution in Lieu		(39,857)
8,343		Less: Reliefs and Other Deductions	8,629	
356		Write-offs of uncollectable debts & allowance for impairment	375	
-	8,699	Interest paid on overpaid rates		9,004
	(28,595)			(30,853)
	(127)	Net General Fund expenditure on discretionary reliefs		(135)
	(28,722)	Net Non-Domestic Rate Income		(30,988)
	(353)	Adjustment to Previous Years National Non-Domestic Rates		(170)
	(29,075)	Contribution to National Pool		(31,158)
	31,013	Distribution received from National Pool		33,707
	(31,013)	Income Credited to the Comprehensive Income & Expenditure Statement		(33,707)

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2016

Classification	Number	Rateable Value £'000
Shops	1,247	19,722
Public Houses	89	1,302
Offices including Banks	894	7,766
Hotels, Boarding Houses, etc	138	3,337
Industrial and Freight transport	1,913	23,485
Leisure, Entertainment, Caravan sites, etc	959	5,001
Garages and Petrol Stations	220	1,860
Cultural and Sporting	141	873
Education and Training	103	9,424
Public Service	434	4,730
Communications	7	17
Quarries, Mines, etc	13	363
Petrochemical	5	1,395
Religious	291	1,225
Health and Medical	99	3,892
Care Facilities	95	1,913
Other	548	1,763
Advertising	9	14
Undertakings	21	2,965
Total	7,226	91,046

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2015/16 was:
 48.0p for properties with a rateable value up to £35,000
 49.3p for properties with a rateable value above £35,000

Trust Funds

The Council is Trustee for a number of Trusts. Of these Trusts 77 are registered with the Office of the Scottish Charity Regulator (OSCR) as a single charity. The Ormiston Trust and the Thomas Howden Wildlife Trusts remain currently as single Trusts registered with OSCR. All OSCR registered Trusts are subject to audit in-line with OSCR requirements and a full financial statement compliant with those requirements is published separately. The remaining 174 Trusts are currently unregistered with OSCR. The Comprehensive Income & Expenditure Statements and Balance Sheet below show the totals of the registered and unregistered Trusts.

The accounting policies applied are those detailed in pages 47 to 59.

The income on the Trust Funds represents both dividends from external investments now held in the Newton Real Return Fund following the implementation of the single investment strategy and interest earned on balances invested in the Council's Loans Fund. These balances are shown under Current Assets in the Balance Sheet below.

Comprehensive Income & Expenditure Statements

2014/15 Restated £'000		Charitable £'000	Other £'000	2015/16 Total £'000
	Income			
(66)	Dividends and Interest	(34)	(30)	(64)
(61)	Rents	-	(55)	(55)
(11)	Donations & Grants	-	(4)	(4)
(69)	Unrealised Gain on Investments	-	-	-
	Expenditure			
15	Administration	-	9	9
44	Grants to Beneficiaries	19	18	37
84	Depreciation	26	58	84
(64)	(Surplus) / Deficit for the Year	11	(4)	7
(870)	(Surplus) brought forward	(312)	(514)	(826)
(84)	Funding (brought forward/carried forward) to Revaluation Reserve	(26)	(58)	(84)
192	Transfer to Capital Reserve	(2)	5	3
-	Movement between Revenue & Capital Reserves	16	64	80
(826)	(Surplus) carry forward	(313)	(507)	(820)

Trust Funds

Balance Sheet

2014/15 Restated £'000		Charitable £'000	Other £'000	2015/16 Total £'000
	Non-current Assets			
1,763	Land and Buildings	241	1,447	1,688
2,053	Investments	741	1,269	2,010
2	Long term Loan	-	2	2
	Current Assets			
128	Short Term Investments	45	226	271
69	Sundry Debtors	-	22	22
	Current Liabilities			
(13)	Sundry Creditors	-	(15)	(15)
4,002	Net Assets	1,027	2,951	3,978
	Financed by			
(826)	Revenue Reserve	(329)	(491)	(820)
(1,482)	Capital Reserve	(507)	(1,031)	(1,538)
(1,694)	Revaluation Reserve	(190)	(1,430)	(1,620)
(4,002)		(1,026)	(2,952)	(3,978)

Common Good Funds

The Council administers the Common Good Funds for nine towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2016, for each of the funds. The accounting policies applied are those as set out in pages 47 to 59.

As per the Council's Common Good Strategy all funds are invested in the Newtown Real Return Fund.

The Common Good Financial Statements are presented in line with previous years. A separate set of financial statements is published compliant with OSCR requirements and subject to full external audit.

Comprehensive Income and Expenditure Statements

Total 2014/15 £'000		2015/16									
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income										
(248)	Fees and Charges	-	-	(104)	-	-	-	(10)	(55)	(69)	(238)
(60)	Investment Income	-	(1)	(9)	-	(22)	(6)	(5)	(9)	(3)	(55)
(36)	Grant Income	(1)	(4)	(16)	-	(14)	(1)	(56)	(8)	(5)	(105)
(344)		(1)	(5)	(129)	-	(36)	(7)	(71)	(72)	(77)	(398)
	Expenditure										
170	Property Costs	2	-	74	-	-	-	11	16	21	124
291	Depreciation	-	36	40	17	12	43	11	37	76	272
48	Administrative Costs	2	2	11	-	4	2	10	8	10	49
85	Donations and Contributions	-	1	17	-	10	8	-	37	15	88
594		4	39	142	17	26	53	32	98	122	533
250	(Surplus) / Deficit	3	34	13	17	(10)	46	(39)	26	45	135
(579)	(Surplus) / Deficit brought forward	(20)	(10)	(101)	-	(81)	(39)	(26)	(54)	(85)	(416)
(291)	Funding (from)/to Revaluation Reserve	-	(36)	(40)	(17)	(12)	(43)	(11)	(37)	(76)	(272)
204	Transfer (from)/to Capital Reserve	-	5	-	-	-	-	40	-	-	45
(416)	(Surplus)/Deficit carried forward	(17)	(7)	(128)	-	(103)	(36)	(36)	(65)	(116)	(508)

Common Good Funds

Balance Sheets

Total 2014/15 £'000		2015/16									
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Non-current Assets										
10,597	Land & Buildings	3	625	3,635	307	477	822	1,016	876	3,235	10,996
25	Heritage Assets	-	-	3	-	-	19	-	2	2	26
2,350	Investments	-	26	372	-	941	255	249	384	135	2,362
77	Long Term Loan to Third Party	-	-	-	-	47	-	13	-	-	60
	Current Assets										
20	Sundry Debtors	-	-	5	-	-	-	8	8	-	21
389	Short Term Investments	17	6	134	-	57	36	24	70	131	475
	Current Liabilities										
(66)	Sundry Creditors	-	-	(11)	-	(1)	-	(5)	(13)	(15)	(45)
13,392	Net Assets	20	657	4,138	307	1,521	1,132	1,305	1,327	3,488	13,895
	Financed by										
(416)	Revenue Reserve	(17)	(7)	(128)	-	(103)	(36)	(36)	(65)	(116)	(508)
(2,546)	Capital Reserve	-	(179)	(508)	(135)	(944)	(255)	(255)	(434)	(135)	(2,845)
(10,430)	Revaluation Reserve	(3)	(471)	(3,502)	(172)	(474)	(841)	(1,014)	(828)	(3,237)	(10,542)
(13,392)	Total Reserves	(20)	(657)	(4,138)	(307)	(1,521)	(1,132)	(1,305)	(1,327)	(3,488)	(13,895)

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code) and relevant accounting standards require local authorities to consider all their interests in other organisations and to prepare a full set of group financial statements where they have material interests in subsidiary and associated entities and joint arrangements. The Local Authority group is defined as the Local Authority and its interests in entities which would be regarded as its subsidiaries or associates or joint arrangements were it subject to the Companies Act. The Code requires that group financial statements include the following statements along with the appropriate notes:

- a Group Movement in Reserves Statement
- a Group Comprehensive Income and Expenditure Statement
- a Group Balance Sheet
- a Group Cash Flow Statement

The Group Accounts and Notes are set out on pages 99 to 108.

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

Subsidiaries

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

- Common Good Funds
- Charitable Trust Funds
- Bridge Homes LLP
- SB Supports LLP
- SB Cares LLP

The Council is the sole trustee of the Common Good Funds and the Charitable Trust Funds and summary financial results for these entities appear on pages 95 to 98. Bridge Homes LLP, a partnership between the Council and Scottish Futures Trust Investments Ltd, created to invest in residential property and in which the Council is entitled to 99.999% of the profits and equally exposed to 99.999% of the losses, is also treated as a subsidiary body. SB Supports and SB Cares LLP are registered Limited Liability Partnerships between Scottish Borders Council and SBC Nominees, working in partnership to provide adult social care services. The financial statements for Bridge Homes LLP, SB Supports LLP and SB Cares LLP are available from Council Headquarters.

Associates

Associate entities are those over which the Council has been deemed to exercise significant influence. The following bodies have been recognised as associates of Scottish Borders Council:

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust

Borders Sport and Leisure Trust

This organisation manages the delivery of a range of sport and leisure facilities at a number of locations throughout the Scottish Borders. The Council pays a management fee to the company and the leisure facilities are owned by the Council and leased to the company. The company is limited by guarantee and has charitable status. The Council is represented on the Board of Directors by three members. The percentage for consolidation is 43.9% based on the Council's contribution to incoming resources. Borders Sport and Leisure Trust's accounting period is to 31 March and, for the purposes of consolidation, the draft financial statements to 31 March 2016 have been used. The company's draft Statement of Financial Activities shows an operating profit of £0.032m for the year to 31 March 2016 of which £0.013m has been included in the Group Accounts. The company's draft balance Sheet as at 31 March 2016 shows net assets of £1.829m of which £0.803m has been included in the Group Accounts.

The Trust's accounts can be obtained from the Trust, Melrose Road, Galashiels, TD1 2DU.

Jedburgh Leisure Facilities Trust

This organisation manages the delivery of a range of sport and leisure facilities in Jedburgh. The Council pays a management fee to the company and the leisure facilities are owned by the Council and leased to the company. The company is limited by guarantee and has charitable status. The Council is not represented on the Board of Directors. The percentage for consolidation is 40.5% based on the Council's contribution to incoming resources. Jedburgh Leisure Facilities Trust's accounting period is to 31 March and, for the purposes of consolidation, the draft financial statements to 31 March 2016 have been used. The company's draft Statement of Financial Activities shows an operating deficit of £0.010m for the year to 31 March 2016 of which £0.004m has been included in the Group Accounts. The company's draft Balance Sheet as at 31 March 2016 shows net assets of £0.001m of which £0.000m has been included in the Group Accounts.

The Trust's accounts can be obtained from the Trust, Oxnam Road, Jedburgh, TD8 6QH.

Joint Arrangements

Joint arrangements can be either joint operations or joint ventures. Joint operations are joint arrangements where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Council commenced a joint arrangement with NHS Borders to establish The Scottish Borders Health and Social Care Integration Board on 6th February 2016. This is a partnership set up to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. As there has only been a small amount of staffing expenditure incurred in 2015/16 we have decided, after seeking an opinion from our external auditors KPMG, that this will not be consolidated into the Council's Group Accounts as a joint venture (in accordance with IFRS11) until 2016/17.

Group Movement in Reserves Statement

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/2014	(25,720)	(5,676)	(31,396)	52,327	(7,993)	44,334	12,938

Movement in reserves during 2014/15

(Surplus)/deficit on provision of services	(179)	214	35	-	-	-	35
Other Comprehensive Income & Expenditure	-	(377)	(377)	(44,745)	(4,678)	(49,423)	(49,800)
Total Comprehensive Income & Expenditure	(179)	(163)	(342)	(44,745)	(4,678)	(49,423)	(49,765)

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(20,886)	-	(20,886)	20,886	-	20,886	-
Impairment losses (charged to CI&ES)	(3,085)	-	(3,085)	3,085	-	3,085	-
Revaluation Losses	(288)	-	(288)	288	-	288	-
Capital grants and contributions applied	20,768	-	20,768	(20,768)	-	(20,768)	-
Employee - Statutory Adjustments	1,270	-	1,270	(1,270)	-	(1,270)	-
Profit/(Loss) on disposal of assets	(1,035)	-	(1,035)	1,035	-	1,035	-
Revenue Expenditure Funded from Capital	(3)	-	(3)	3	-	3	-
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	206	(206)	-	(206)	-
Net retirement charges per IAS 19	(25,039)	-	(25,039)	25,039	-	25,039	-
Loans Fund principal repayments and Statutory premia	10,818	-	10,818	(10,818)	-	(10,818)	-
Capital Expenditure charged to General Fund balance	935	-	935	(935)	-	(935)	-
Employers contribution payable to Pension Fund	12,517	-	12,517	(12,517)	-	(12,517)	-
Net (Increase)/Decrease before transfers	(4,001)	(163)	(4,164)	(40,923)	(4,678)	(45,601)	(49,765)
Net Transfers to or (from) other reserves	1,825	(375)	1,450	(1,825)	375	(1,450)	-
(Increase)/Decrease in 2014/15	(2,176)	(538)	(2,714)	(42,748)	(4,303)	(47,051)	(49,765)
Balance at 31/03/2015	(27,896)	(6,213)	(34,109)	9,579	(12,297)	(2,718)	(36,827)

Group Movement in Reserves Statement

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/2015	(27,896)	(6,213)	(34,109)	9,579	(12,297)	(2,718)	(36,827)
Prior Year Adjustment		26	26		6	6	32
Restated Balance at 01/04/2015	(27,896)	(6,187)	(34,083)	9,579	(12,291)	(2,712)	(36,795)

Movement in reserves during 2015/16

(Surplus)/deficit on provision of services	(4,786)	462	(4,324)	-	-	-	(4,324)
Other Comprehensive Income & Expenditure	-	(353)	(353)	(43,758)	332	(43,426)	(43,779)
Total Comprehensive Income & Expenditure	(4,786)	109	(4,677)	(43,758)	332	(43,426)	(48,103)

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(21,247)	-	(21,247)	21,247	-	21,247	-
Impairment losses (charged to CI&ES)	(1,126)	-	(1,126)	1,126	-	1,126	-
Revaluation Losses	(7,754)	-	(7,754)	7,754	-	7,754	-
Capital grants and contributions applied	28,939	-	28,939	(28,939)	-	(28,939)	-
Employee - Statutory Adjustments	1,008	-	1,008	(1,008)	-	(1,008)	-
Profit/(Loss) on disposal of assets	(1,914)	-	(1,914)	1,914	-	1,914	-
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	206	(206)	-	(206)	-
Net retirement charges per IAS 19	(22,496)	-	(22,496)	22,496	-	22,496	-
Loans Fund principal repayments and Statutory premia	10,114	-	10,114	(10,114)	-	(10,114)	-
Capital Expenditure charged to General Fund balance	531	-	531	(531)	-	(531)	-
Employers contribution payable to Pension Fund	11,250	-	11,250	(11,250)	-	(11,250)	-
Net (Increase)/Decrease before transfers	(7,275)	109	(7,166)	(41,269)	332	(40,937)	(48,103)
Net Transfers to or (from) other reserves	4,007	(356)	3,651	(4,007)	356	(3,651)	-
(Increase)/Decrease in 2015/16	(3,268)	(247)	(3,515)	(45,276)	688	(44,588)	(48,103)
Balance at 31/03/2016	(31,164)	(6,434)	(37,598)	(35,697)	(11,603)	(47,300)	(84,898)

Group Comprehensive Income and Expenditure Statement

2014/15				2015/16		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
118,088	(4,506)	113,582	Education	118,565	(3,257)	115,308
38,690	(33,481)	5,209	General Fund Housing Services	37,820	(33,219)	4,601
16,335	(1,942)	14,393	Cultural & Related Services	17,804	(2,608)	15,196
22,460	(2,852)	19,608	Environmental Services	25,380	(3,394)	21,986
24,404	(5,844)	18,560	Roads & Transport Services	29,449	(6,545)	22,904
8,661	(4,376)	4,285	Planning & Development Services	7,387	(3,298)	4,089
84,144	(14,947)	69,197	Social Work	87,818	(15,414)	72,404
8,439	(1,434)	7,005	Central Services	9,218	(1,890)	7,328
685	-	685	Non-Distributed Costs	1,614	(201)	1,413
594	(284)	310	Common Good	533	(343)	190
143	(141)	2	Trust Funds	130	(59)	71
2,757	(2,716)	41	Share of Operating Results of Associates	2,697	(2,711)	(14)
325,400	(72,523)	252,877	Services provided by the Council	338,415	(72,939)	265,476
325,400	(72,523)	252,877	Net Cost of Services	338,415	(72,939)	265,476
		(165)	Roads Trading Operation (Surplus)/Deficit (External)			(98)
		288	Other Operating Expenditure (Gain)/Loss on Disposal of Assets			652
		11,806	Financing & Investment Income and Expenditure Interest Payable & Similar Charges			12,320
		(164)	Interest Receivable & Similar Income			(148)
		8,973	Net Interest Expense on the Net Defined Benefit Liability			5,580
		4	Share of Associates Interest Payable			3
		(29)	Share of Associates Interest & Investment Income			-
		(175,625)	Taxation and Non-Specific Grant Income Revenue Support Grant			(178,870)
		(31,013)	Non-Domestic Rates Pool for Scotland			(33,707)
		(46,149)	Council Tax			(46,593)
		(20,768)	Capital Grants and Contributions			(28,939)
		35	(Surplus)/Deficit on Provision of Services			(4,324)

Group Comprehensive Income and Expenditure Statement

2014/15				2015/16		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		35	(Surplus)/Deficit on Provision of Services			(4,324)
		(4,423)	(Surplus)/Deficit on revaluation of Non Current Assets			(8,426)
		(288)	Any Other (Gains) Or Losses			(353)
		(420)	Actuarial (gains)/losses on pension assets/liabilities			(35,000)
		(5,131)	Other Comprehensive Income and Expenditure			(43,779)
		(5,096)	Total Comprehensive Income and Expenditure			(48,103)

Group Balance Sheet

Restated 2014/15 £'000		2015/16 £'000
302,804	Property Plant and Equipment	
14,621	Other Land and Buildings	318,192
86,483	Vehicle, Plant, Furniture & Equipment	15,046
4,730	Infrastructure	89,035
26,976	Surplus Assets	4,116
1,039	Assets Under Construction	33,108
1,290	Heritage Assets	1,040
295	Investment Property	-
4,403	Intangible Assets	230
1,134	Long Term Investments	4,372
4,316	Investments in Associates	1,328
	Long Term Debtors	4,131
448,091	Long Term Assets	470,598
-	Intangible Assets - Current	676
52	Short Term Investments	-
966	Inventories	1,051
38,291	Short Term Debtors	47,702
(8,838)	less Bad Debt Provision	(9,525)
15,001	Cash and Cash Equivalents	17,902
45,472	Current Assets	57,806
(3,243)	Short Term Borrowing	(3,261)
(49,105)	Short Term Creditors	(52,877)
(1,299)	Provisions	(1,491)
(53,647)	Current Liabilities	(57,629)
(172,076)	Long Term Borrowing	(171,996)
(54,330)	Deferred Liabilities	(52,864)
-	Finance Leases/Bonds	-
(341)	Liabilities of Associates	(255)
(3,809)	Provisions	(4,305)
(6,493)	Capital Grants Receipts in Advance	(13,868)
(237,049)	Long Term Liabilities	(243,288)
202,867	Net Assets excluding pension liability	227,487
(166,072)	Pension Liability	(142,589)
36,795	Net Assets/(Liabilities) including pension liability	84,898

Group Balance Sheet

2014/15 £'000	Financed By:	2015/16 £'000
	Useable Reserves	
(7,552)	Capital Fund	(6,578)
(18,991)	General Fund Balance	(23,163)
(39)	Property Maintenance Fund	(102)
(1,314)	Insurance Fund	(1,321)
(6,187)	Share of Group Entities Usable Reserves	(6,434)
	Unusable Reserves	
(103,407)	Capital Adjustment Account	(118,459)
5,395	Financial Instruments Adjustment Account	5,189
(65,671)	Revaluation Reserve	(70,201)
166,072	Pension Reserve	141,592
7,190	STACA Statutory Mitigation Account	6,182
(12,291)	Share of Group Entities Unusable Reserves	(11,603)
(36,795)	Total Reserves	(84,898)

The unaudited accounts were issued on 30 June 2016 and the audited accounts were authorised for issue on 29th September 2016.

David Robertson CPFA
Chief Financial Officer
29th September 2016

Group Cash Flow Statement

2014/15		2015/16	
£'000		£'000	£'000
35	Net (Surplus) or deficit on the provision of services	(4,326)	
(16)	Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement	11	
(34,558)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(39,580)	
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,203	
(15,338)	Net Cash Flows From Operating Activities		(15,692)
	Investing Activities		
33,307	Purchase of PP&E, investment property and intangible assets	47,693	
(745)	Proceeds from PP&E, investment property and intangible assets	(1,263)	
291	Purchase/(Disposal) of short & long term investments	207	
(21,930)	Other Items which are Investing Activities	(34,733)	
10,923	Net Cash Flows from Investing Activities		11,904
	Financing Activities		
(246)	Cash received from loans & other borrowing	(17)	
1,921	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,462	
167	Repayments of short and long term borrowing	63	
1,264	Other items which are financing activities	(621)	
3,106	Net Cash Flows from Financing Activities		887
(1,309)	Net (Increase) or Decrease in Cash and Cash Equivalents		(2,901)
13,692	Cash and Cash Equivalents at the beginning of the reporting period		15,001
15,001	Cash and Cash Equivalents at the end of the reporting period		17,902
(1,309)	Movement		(2,901)

Notes to the Group Accounts

Note 1 Group Accounting Policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 47 to 59.

The Council has accounted for its interest in each subsidiary using the acquisition method of accounting. The Council's interest in each associate has been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note 2 Group Cash Flow

A reconciliation between the Group Income and Expenditure Statement and the revenue activities in the Group Cash Flow Statement is provided in the table below:

2014/15		2015/16
£'000	Reconciliation to General Fund Surplus	£'000
35	Net (Surplus) or deficit on the provision of services	(4,326)
(16)	Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement	11
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(21,037)	Depreciation	(21,385)
(3,442)	Impairment & Revaluation Loss through I & E	(8,901)
(224)	Amortisation of intangible assets	(218)
(12,522)	Movement in pension liability	(11,246)
(288)	Gain/Loss on carrying amounts of assets disposed	(652)
44	Net movement in inventories charged to I & E	85
5,832	Net movement in debtors charged to I & E	10,481
(3,267)	Net movement in creditors charged to I & E	(7,734)
346	Net movement in provisions charged to I & E	(10)
(34,558)		(39,580)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
20,768	Capital grants received	28,939
(1,567)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(736)
19,201		28,203
(15,338)	Net Cash Outflow / (Inflow) from Operating Activities	(15,692)

Note 3 Financial Impact of Group Consolidation

The inclusion of the group entities has an impact on the Council's single entity position on provision of services. The surplus of £4.8m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group surplus of £4.3m. The Group Balance Sheet position has improved significantly from a net asset of £36.8m in 2014/15 to a net assets position of £84.9m in 2015/16.

Glossary of Terms

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Aggregate External Finance (AEF): this is the term given to the total of funding provided by the Scottish Government. It comprises three parts, which are explained below;

- **Revenue Support Grant (RSG):** this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.
- **Non-Domestic Rate Income (NDRI):** local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.
- **Specific Grants:** the final part of AEF. As the name suggests these grants are paid to support specific services/activities and can enable the Scottish Government to more directly influence service provision than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure. Each financial year budget is part of a 5 year Revenue or a 10 year Capital Financial Plan.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are schools, major road works, improving social work and leisure facilities. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and developer contributions. It can be used to fund capital expenditure or make payments of loan principal.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Common Good Funds: have been accumulated by former burghs since their foundation from the 12th Century onwards. They are held by the Council as custodian for the benefit of residents of the 8 former burghs, Duns, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk. They are administered by the Council to have regard to the interest of the inhabitants of the area to which the Common Good formally related.

All of the Common Good Funds are presently registered as a single charity with OSCR.

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band D.

Council Tax Reduction Scheme (CTRS): Replaced Council Tax Benefit which stopped on 1 April 2013 as part of the welfare reform programme. CTRS is a reduction on your council tax that you may be entitled to if you are on a low income. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term creditors, short-term borrowing and provisions.

Depreciation: the measure of the value of a fixed asset used during the year.

Fair Value: is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

General Fund: the principal usable reserve of the Council that covers most areas of activity, the main exclusions being SBc Contracts and the Pension Fund.

Group Accounts: statements that reflect the Council's interest in any subsidiaries, associates and joint ventures.

Heritage Assets: assets preserved in trust for future generations because of their cultural, environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: The Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Ratios: financial analysis tools to support the evaluation of the financial health of the organisation.

Rents, Fees and Charges: add in charges for specific service; examples include home care charges, commercial rents, hall lets and library fines.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Property Maintenance Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account .

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: The Council administers 306 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 126 of which have charitable status and have been reorganised into 6 charities registered with the Office of the Scottish Charity Regulator (OSCR).

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.

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

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

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

Respective responsibilities of the Chief Finance Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

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

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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

29th September 2016

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