Scottish Borders Council

statement of accounts

for the year to 31 March 2014

December 2014

AUDITED STATEMENT OF ACCOUNTS

SCOTTISH BORDERS COUNCIL
FOR THE YEAR TO 31 MARCH 2014

Scottish Borders Council

Statement of Accounts 2013/14

Explanatory Foreword by the Chief Financial Officer

Introduction

Welcome to the Scottish Borders Council accounts for the financial year ended 31 March 2014.

The Council is required by law to publish a Statement of Accounts that comply with applicable codes of practice. The statements that follow have been prepared in accordance with proper accounting practice as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

The purpose of this document is to demonstrate the Council's proper stewardship of and accountability for the management of the public funds with which it is entrusted. Within my foreword I have sought to highlight the most significant matters which have arisen during the year within the Council, hopefully allowing the reader to reach an informed judgement on the Council's financial position at 31 March 2014 and on the quality of its financial management.

A separate statement of accounts for the Scottish Borders Council Pension Fund has been prepared in accordance with the 2008 regulations.

The Accounts

The main statements contained within these accounts are as follows:

- **Statement of Responsibilities** – this sets out the respective responsibilities of the Council and the Chief Financial Officer for the statement of accounts.

- **Annual Governance Statement** - this explains the arrangements the Council has put in place for the conduct of its internal business and its dealings with other parties in accordance with the law and proper standards. The statement includes a review of compliance with the Local Code of Corporate Governance and details any enhancements identified as being required.

- **Remuneration Report** – this sets out information in relation to the remuneration of Councillors and Senior Employees of the Council. The information includes an analysis of exit packages, pension benefits and other remuneration costs.

- **Movement in Reserves Statement** – this shows the movement during the year on the different reserves held by the Council. The surplus or deficit on the provision of services shows the true economic cost of providing Council services during the year and further details on these services are shown in the Comprehensive Income and Expenditure Statement.

- **Comprehensive Income and Expenditure Statement** – this outlines the financial performance of the Council during the financial year. It shows the accounting cost in year of providing Council services during 2013/14 rather than the amount to be funded by taxation. The Council raises taxation to cover expenditure in accordance with regulation and this may differ from the accounting cost.

- **Balance Sheet** – this details the net worth of the Council at 31 March 2014 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement. The net assets (i.e. assets less liabilities) of the Council are matched by the reserves held by the Council

- **Cash Flow Statement** – this provides another way of looking at the performance for the year, removing the accrual of income and expenditure and showing how the cash flowing in and out of the Council associated with transactions with third parties has affected the opening and closing financial position.

In addition to these main statements we have also provided additional contextual information to help the reader assess how well the Council has performed via a series of notes to the accounts, supplementary statements including the Non Domestic Rate Income Account, the Council Tax Income Account and information with respect to the Common Good and Trust Funds under the stewardship of the Council.

Explanatory Foreword by the Chief Financial Officer

The Council's Financial Position for 2013/14

Budget and Financial Strategy

The budget for 2013/14 was approved by the Council on the 6th February 2013 and planned net expenditure totalled £248.6m. Revenue Support Grant including the Council's share of the Non-Domestic Rates Pool from the Scottish Government totalled £203.4 (81.8% of total funding). The Council budgeted to raise £45.2m (18.2%) of its funding through Council Tax and a 'Band D' Council Tax of £1,084 was levied, maintaining the rate first agreed in 2007/08, for the seventh successive year. The Council Tax for Scottish Borders continued to be the fourth lowest in mainland Scotland and the seventh lowest overall in 2013/14. Our in-year council tax collection rate was 96.6%.

The Council along with all public bodies is operating within a very challenging period and the approved financial strategy recognised the continuing difficult economic outlook and the need for robust financial management to control costs. The high level financial strategy agreed for the financial year was to:-

- Freeze council tax
- Set a prudent, sustainable budget in line with available recurrent resources
- Continue to invest in infrastructure through a sustainable capital programme financed by £21.3m of loans charges per year
- Provide a £13m loan facility to registered social landlords operating in the Scottish Borders as a stimulus to house building and wider economic development
- Maximise income while keeping fees charged to service users at an affordable level
- Continue to invest in business transformation and efficiency projects to deliver long term financial savings and service benefits to the Council
- Maintain unallocated reserves of £5.6m based on the assessed risk register

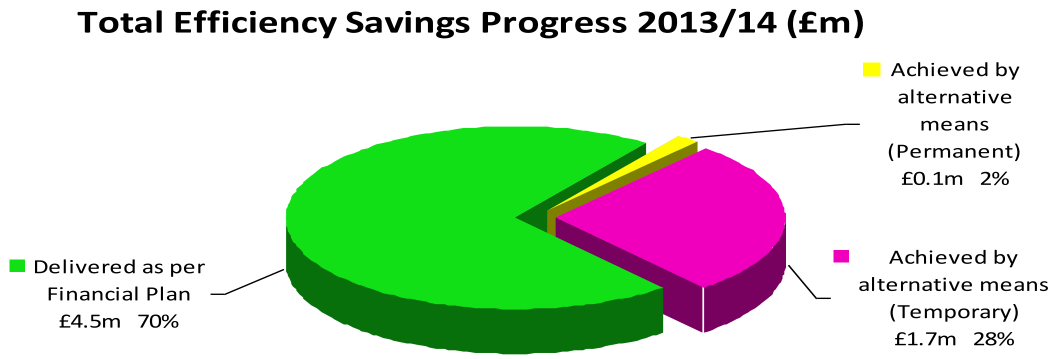
The assessment of the effectiveness of this strategy during 2013/14 is that, despite a difficult financial situation it was delivered.

Revenue Outturn 2013/14

The approved budget was subject to a number of amendments during the year, as service pressures and savings were identified, additional Revenue Support Grant was received and budget adjustments were approved. The actual outturn for the financial year 2013/14, including funding sources, was a revenue expenditure of £254.6m representing a net under spend of £0.45m (0.18%) against the revised budget.

Efficiency savings

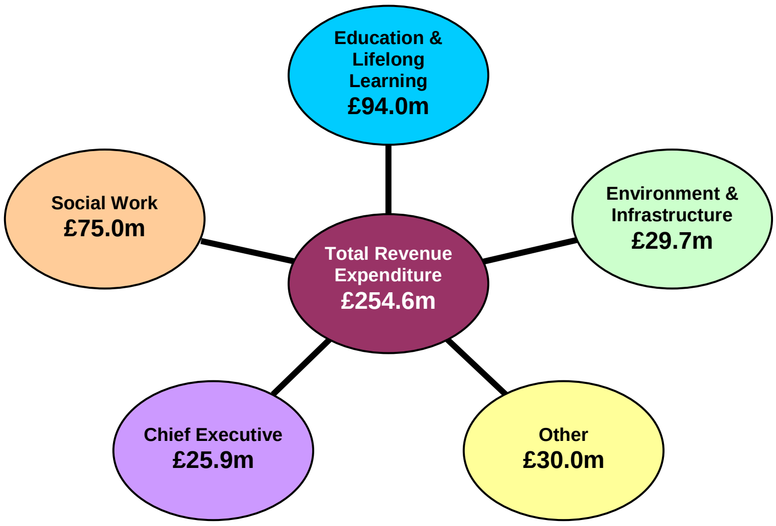
During the year the Council again focussed on maximising savings wherever possible and delivered a significant efficiency programme in order to balance the costs of service provision to available resources. Savings required by the financial plan in 2013/14 were tracked through quarterly reports to elected members and monthly reports to the management team. The position at the 31 March 2014 was as shown in the chart below. Of the £6.3m in year savings delivered, 70% were fully achieved by departments as per the original plan (compared to 49.5% in 2012/13), with the remaining 30% delivered via alternative corporate savings and additional income. The Council wide management focus on delivering business transformation and other efficiency savings will continue in future years when balancing the Council's budget to available public finances is expected to present a significant challenge.



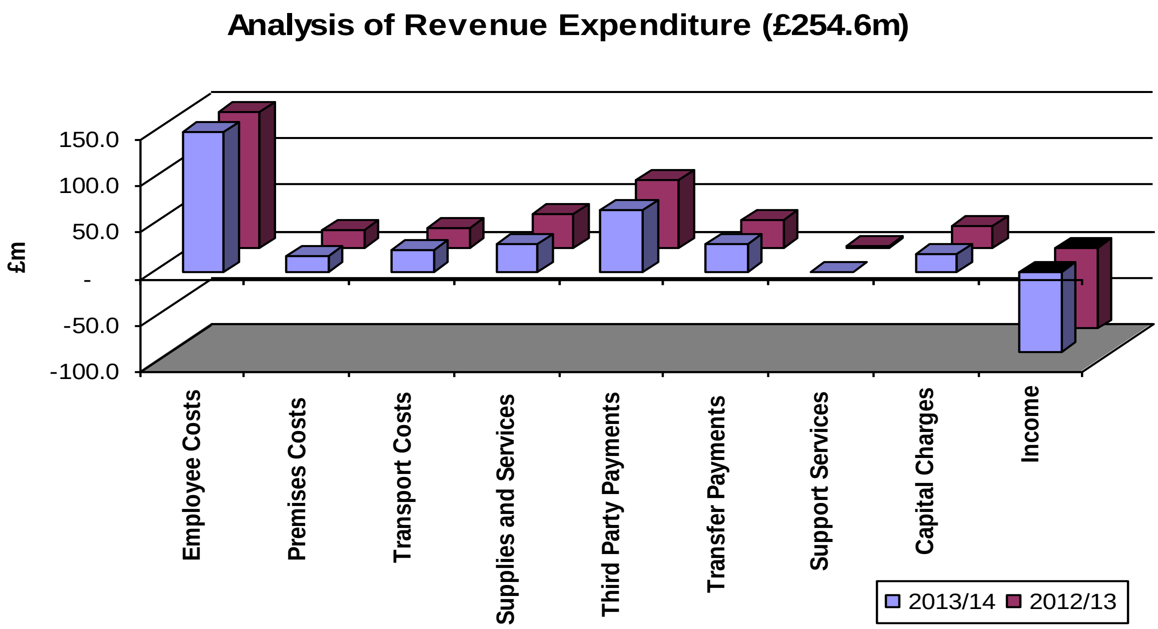
Explanatory Foreword by the Chief Financial Officer

2013/14 Departmental Commentary

The total revenue expenditure for the financial year 2013/14 of £254.6m is analysed by department in the following chart:



The total income and expenditure is further analysed as follows, with additional information available in Note 5, Page 45:



Explanatory Foreword by the Chief Financial Officer

Chief Executive

Financial Review of 2013/14

The Chief Executive's department delivered the £0.9m efficiency savings target of which £0.7m (78%) was delivered permanently in line with the Financial Plan for 2013/14. During the year an interim management structure for the department was in place pending the implementation of new Corporate Management arrangements. The department implemented and delivered the first year of the Scottish Welfare Fund and Council Tax Reduction Scheme and launched the Youth Employment Scotland and Work Opportunities Schemes.

The departmental outturn for 2013/14 was a small under spend of £0.3m (1%) against its revised budget of £26.1m.

Financial Outlook for 2014/15

The focus going into 2014/15 is on the work required to ensure that targets for Business Transformation and Efficiencies are met.

The key risks and challenges to the delivery of the 2014/15 financial plan are:-

- the capacity to support the wide range of business transformation projects across the Council whilst driving efficiencies across the Chief Executive services;
- managing, in conjunction with partners, the impact on the Borders' community of the ongoing Welfare Reform roll out;
- supporting new EU projects such as the development of the new LEADER and Fisheries programmes; and
- maximising the benefits of the Borders Railway for businesses and commuters through inward investment.

Education and Lifelong Learning

Financial Review of 2013/14

The Education and Lifelong Learning department delivered the £1.3m efficiency savings target, of which £1.1m (82%) was permanently delivered in line with the 2013/14 Financial Plan. During the year the department addressed pressures relating to increased costs of School Transport and achieving planned staff turnover targets.

The department achieved a balanced outturn position £94m in line with its revised budget.

Financial Outlook for 2014/15

The focus going into 2014/15 will be on the work required to ensure the integration of the Schools and Integrated Children's Services into a single service as part of a corporate restructuring programme, and delivering the targets for Business Transformation and Efficiencies. Several key transformational projects are underway within the department to support the delivery of these measures.

The key risks and challenges to the delivery of the 2014/15 financial plan are:-

- the unpredictability of utility costs across the high number of properties in the service, especially in times of severe weather;
- delivering the staff turnover targets in light of changing service delivery models;
- the impact of school demographics for the new academic year on teacher numbers and Devolved School Management (DSM) budgets; and
- the pressures experienced in relation to School Transport in 2013/14 continue into 2014/15.

Explanatory Foreword by the Chief Financial Officer

Environment and Infrastructure

Financial Review of 2013/14

The Environment and Infrastructure department delivered the £2.2m efficiency savings target of which £1.3m (63%) was delivered in line with the 2013/14 Financial Plan. The department progressed with the implementation of the E&I review and managed a range of in-year service pressures. The mild winter this year reduced the cost of winter maintenance and resulted in a £0.6m reserve being carried forward to support severe weather in future years.

SBc Contracts is the only Significant Trading Operation (STO) within the Council. As an STO it has a statutory obligation to at least break even over a rolling three-year period. Despite continuing difficult external trading conditions SBc contracts attracted significant new business during 2013/14 and the STO reported a net surplus of £0.6m, resulting in a cumulative three year surplus of £0.8m, well within the statutory obligation. Further information on the STO is contained in Note 8 on page 47.

The department closed 2013/14 with a small under spend of £0.12m (0.04%) of its revised budget of £29.82m.

Financial Outlook for 2014/15

The focus going into 2014/15 is on the work required to ensure that the Financial Plan targets for Business Transformation, Efficiencies and Income generation are met. Several key transformational projects are underway within Environment and Infrastructure to support the delivery of these measures.

The key risks and challenges to the delivery of the 2014/15 financial plan are:-

- the high dependency of the Planning service on fee income to deliver savings within the 2014/15 budget;
- the need to deliver the departmental restructure savings on a permanent basis;
- the need to embed new working arrangements within Neighbourhood Services;
- the delivery of the planned new waste treatment facility in partnership with New Earth Solutions (NES); and
- SBc Contracts continuing to secure work in the external market.

Social Work

Financial Review of 2013/14

The Social Work department delivered the £1.9m efficiency savings target of which £1.3m (69%) was delivered in line with the 2013/14 Financial Plan. However, the budget experienced significant additional expenditure pressure (£3.5m) during 2013/14

This pressure emerged as a result of the increasing:-

- demand for children's out of area placements (£1.3m);
- costs for homecare (£0.7m) services for older people as a result of an increase in home care rates, inability to deliver planned savings targeted within the implementation of real-time monitoring and inefficiency in the deployment of homecarers;
- additional unplanned demand for residential care (£0.6m); and
- the complexity of needs within the adults with learning and physical disabilities client group (£0.9m).

The department partially addressed the additional in-year pressures including a number of temporary reductions in discretionary commitments (£1.2m). The remaining balance of the in-year pressure was supported by corporate action to transfer resources from elsewhere in the Council.

As a result of the significant effort of service staff and financial management input the Social Work department closed 2013/14 with a small adverse variance of £0.07m (0.09%) of its revised budget of £75m after delivering additional in-year savings.

Financial Outlook for 2014/15

The pressures experienced in 2013/14 are nearly all recurring yet they have been funded in year by temporary budgetary support. The requirement for further investment in Older People and Adults with Learning Difficulties was identified in the 2014/15 financial planning process; however the continuing pressure is likely to cause further strain on resources and will require the department and the wider Council to identify further permanent measures to address this through the 2015/16 planning cycle. Several key transformational projects are underway within Social Work to support the delivery of these measures.

Other (including Loan Charges)

Financial Review of 2013/14

The "Other" budget includes Business 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. No efficiency target was set for budget heading within the 2013/14 Financial Plan.

During the year as a result of 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 also to proactively earmark £1m of funds to underpin the 2014/15 Financial Plan.

The final outturn associated with the "Other" budget was an under spend of £0.1m (0.03%) of the revised budget of £30.0m.

Financial Outlook for 2014/15

The 2014/15 Financial Plan includes £0.5m reduction in Loan Charges and significant business transformation savings related to a review of employee terms and conditions of employment which will amount to £2.7m over the next 5 years.

Comprehensive Income and Expenditure Statement (page 27)

The Comprehensive Income and Expenditure Statement on page 27 shows the accounting cost of providing service rather than the cost of services which requires to be funded by taxation.

The Council is required to make various statutory accounting adjustments to the net cost of services in order to comply with the Code. These accounting adjustments include depreciation, net gains/losses on disposal, net retirement benefits, loans fund principal repayments and accrued holiday leave not taken by 31 March 2014 and therefore adjusted the net cost of services from £254.6m to £252.3m. Note 5, on page 45 shows the movements between the revenue outturn net cost of services and the net cost of services reported in the Comprehensive Income and Expenditure Statement (compared with £292.5m in 2012/13). Note 5 highlights that the cost of providing the core Council services has not changed significantly from previous years. Further statutory adjustments are then made to the departmental outturn in the comprehensive income and expenditure account shown on page 27 to include losses on the disposal of assets, interest payable and adjustments for pension costs. These accounting adjustments result in an overall deficit on the provision of service of £6.4m.

Explanatory Foreword by the Chief Financial Officer

Reserves

The Council maintains two types of reserves – usable and unusable – and the movements in these reserves are set out in the Movement in Reserves Statement (page 25). The distinction between the two is as follows:

Usable Reserves	Unusable Reserves
• Result for the authority's activities • Can be spent in the future • Includes: General Fund, Property Maintenance Fund, Insurance Fund & Capital Fund	• Result from accounting adjustments • Cannot be spent • Includes: • Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account

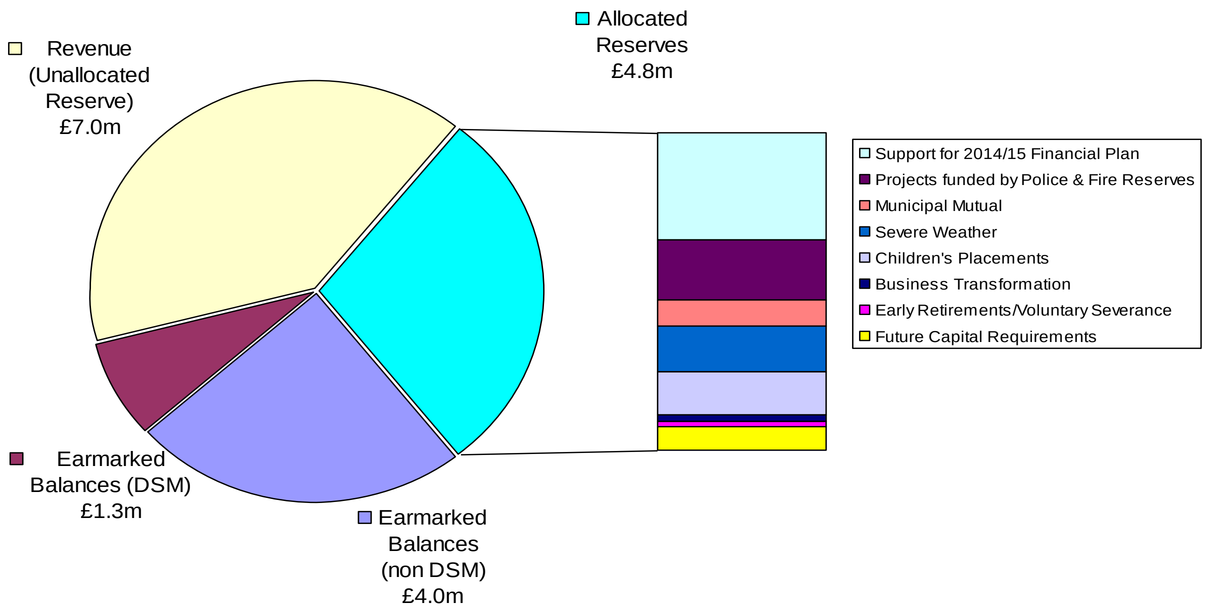
Note 31 on page 74 includes additional information on the status of both the usable and unusable reserves held by the Council.

The Council's principal usable reserve is the General Fund and this 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.
- Earmarked reserves to meet known or predicted liabilities.

As indicated previously, the Council's Financial Strategy identified the optimum level of non-earmarked reserves, as quantified by a risk register at £5.6m. As at 31 March 2014 the total General Fund Reserve balance is £17.1m. Of this, £5.3m has been earmarked for specific departmental expenditure in 2014/15, £4.8m has been allocated to specific purposes in future years and the remaining £7.0m will be held in reserves to meet any unexpected future expenditure as identified by the risk register. The balance on the General Fund Reserve increased by £2.1m during 2013/14 to £17.1m (2012/13 £15m). This increase can mainly be attributed to the under spend in revenue outturn, an increase in departmental balances during the year and the sale of a financial asset.

Analysis of General Fund Reserve as at 31 March 2014



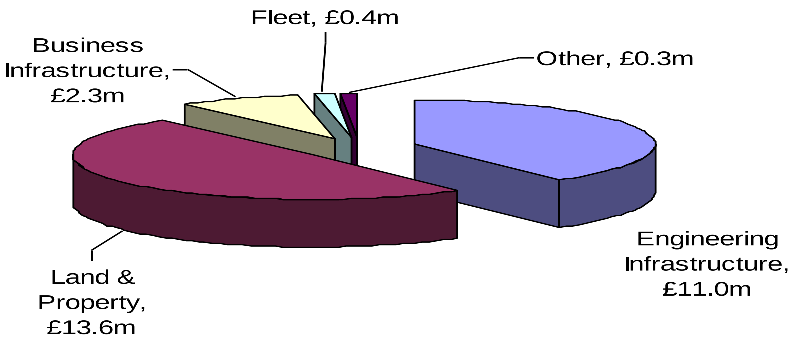
Explanatory Foreword by the Chief Financial Officer

Capital Expenditure

In February 2013, the 2013/14 - 2022/23 Capital Financial Plan was approved with proposals to spend £24.8m in 2013/14. The Capital Plan aims to ensure 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 implications which have the potential to place an undue burden on future tax payers.

In 2013/14 the Council incurred capital expenditure totalling £27.6m against the revised budget of £29.9m. Of the £2.3m variance, £2.6m of budget was moved into future years to reflect revised expenditure profiles and £0.2m overspend related to funded additional expenditure. Analysis of this by capital theme is shown in the following chart:-

Analysis of 2013/14 Capital Expenditure (£m)



The capital programme delivered significant investment in the Scottish Borders during 2013/14 and the following table highlights some of the major projects undertaken:

	£m		£m
Engineering & Infrastructure		**Land & Property**	
Galashiels Developments	1.7	New West Linton Primary School	2.3
Kelso Streetscape	0.6	New Kelso High School	1.7
Galashiels Flood Protection Scheme	1.4	Peebles High School - Sports Facilities	4.2
Other Flood Protection Schemes	0.9	LUPS Strategic Business Land	1.2
General Roads & Bridges Asset Management	5.3	General Property Asset Management	1.1
Business Infrastructure		**Other**	
Replacement of Curricular Network	0.9	Private Sector Housing Adaptations	0.3
Fleet			
Vehicle Replacement	0.4		

The table below shows how the capital spending was funded:

Analysis of Capital Funding	£m
Borrowing	37.2%
General Capital Grant from Scottish Govt.	36.8%
Capital Fund/Capital Receipts	8.8%
Other Grants and Contributions	7.1%
Specific Capital Grants from Scottish Govt.	5.5%
Developer Contributions	1.6%
Plant & Vehicle Replacement Fund	1.4%
Capital Financed from Current Revenue	1.3%
Returned Police & Fire Reserves	0.3%

A further £1.2m of borrowing was used to finance the creation of the land fill provision. Finally, in addition to the capital expenditure on its own assets the Council incurred £1.7m of capital expenditure for the National

Housing Trust initiative which delivered new house building in the Scottish Borders. This was funded by additional capital borrowing under a specific consent to borrow from the Scottish Government.

Treasury 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 operation during the year was to ensure that the cash flow was adequately planned, with cash being available when needed. Surplus monies were invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

The Council continued to maintain an under-borrowed position, this means that the capital borrowing need was not fully funded by loan debt and instead cash supporting the Council's reserves, balances and cash flow has been 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 and resulted in the temporary budgetary benefits highlighted earlier in this Foreword.

Debt Outstanding

The Council's outstanding external debt at the 31 March 2014 was £170.8m (2012/13 £181.4m), there was no temporary borrowing outstanding at 31 March 2014 (2012/13 £6.1m). The average rate of interest paid on outstanding external debt was 5.2% (2012/13: 5.2%).

Icelandic Banks

In February 2014 the Council agreed to sell the outstanding claim with Landsbanki (£5m) to a third party as part of a collectively negotiated sale coordinated by the Local Government Association resulting in a 94% recovery of deposits outstanding. In addition the Council's £5m deposit with Heritable Bank continues to be repaid in significant installments with a further £0.8m received during 2013/14 resulting in 95% recovery to date against the deposits outstanding.

Group Accounts

Following the creation of the Scottish Police Authority and the Scottish Fire and Rescue Service, the Lothian & Borders Police and Fire & Rescue Boards have been dissolved and therefore no longer constitute part of the Council's Group. As a result of this material event the Council has reconsidered all reported entities and based on their immaterial impact on the Councils overall financial statements has deemed that there is no need to produce Group Accounts for the financial year ending 31 March 2014. Borders Sport and Leisure Trust, Jedburgh Leisure Trust and Common Good and Trust funds have not therefore been consolidated into a Group Account but are reported separately on page 10 and pages 80-84 respectively, of the Councils Statement of Accounts In addition, the Common Good and Trust Funds are administered by the Council as sole trustee.

Common Good and Trusts

The Council is trustee for 289 trusts and endowments and of these 112 are registered for charitable status with the Office of the Scottish Charity Regulator (OSCR), (36 individual and 1 group registration). The Common Good Funds are also a registered charity.

Significant work has been undertaken with regard to the Common Good and Trust Funds following the implementation of the Common Good and Trust Fund Investment Strategy and the transfer of investments and cash into a pooled fund (Newton Real Return Fund) managed by Newton Investment Management who are part of the Bank of New York Mellon. This is already demonstrating improved cash generation for the Funds.

Work has also commenced to reorganise the 289 trusts and endowments into three new Charitable Trusts. OSCR has registered the three new trusts and approved the reorganisation of the 36 individually registered charities into these three new charities. The second phase of the work to reorganise the charities registered as a single holding charity is now underway. This will be followed by a review of the remaining trusts and endowment funds to determine how to add these into the appropriate new Charitable Trust, with the objective of holding as many of the various trusts and endowments in these three new charities as possible, so making access to them easier and management more efficient. The charity in which the Common Good Funds are held and the single holding charity for the 76 trusts and endowments are both subject to the new

OSCR reporting and auditing requirements and therefore separate sets of financial statements have been prepared for these Funds and will be published in addition to the information contained in these Annual Accounts.

Going Concern

The Council's Balance Sheet is shown on pages 29 and 30. The value of net liabilities of £26.6m at 31 March 2014 (2012/13 £30.9m) exceeds the value of distributable reserves held by the Council. This is however only a snap shot view which is fundamentally affected by the net pension fund liability (£198.4m) calculated at this point in time. The triennial actuarial valuation, which takes a longer term view of pension fund liabilities as they are more likely to actually fall due in future years, will appropriately apply future revenue streams from a combination of investment returns, employer contributions and employee contributions to meet the financing of these liabilities. It is therefore considered appropriate to continue to adopt a "going concern" basis for the preparation of these financial statements.

Looking Ahead

The Council is moving forward and has implemented a new Corporate Management structure with 3 new service groupings (Chief Executives, People and Place) effective from 1 April 2014, and the appointment of the new Deputy Chief Executives for both Place and People. The internal drivers for the organisation in 2014/15 will be embedding the new corporate structure and realigning the financial management arrangements to this, and delivering the Business Transformation Agenda and targeted Efficiency Savings in order to continue to deliver the Council's core service priorities within the available resources.

The Council's service delivery model continues to evolve with the creation of a new corporate body to manage the integration of NHS services with Health and Social Care for Adults, the establishment of a limited liability partnership (LLP) to create an investment and delivery vehicle for £20m of affordable housing in the Scottish Borders and the potential use of arm's length organisations (ALEOs) for service delivery.

The operating environment for the Council continues to be very challenging with financial and economic influences such as welfare reform, increasing demands on services, 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 future.

Thanks

I am particularly grateful for all the assistance and advice I have received from Elected Members, the Council Management Team and other colleagues during this financial year. My special thanks are due as always to all staff who play a role in financial management, especially those in Corporate Finance and Financial Services, for their hard work and commitment during the year.

David Robertson CPFA
Chief Financial Officer
23 September 2014

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 one of its officers has the responsibility for the administration of those affairs. 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.

- Approve the Statement of Accounts (in Scotland, the audited accounts must be laid before a meeting of the Council within two months of receipt of the audit certificate).

The Chief Financial Officer's responsibilities

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

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Chief Financial Officer has also:

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

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2014, and its income and expenditure for the year ended 31 March 2014.

David Robertson CPFA
Chief Financial Officer
23 September 2014

Annual Governance Statement

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 our 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 2014.

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

a) The Council has a Single Outcome Agreement in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision and strategic objectives are reflected in the Council's Corporate Plan and Priorities and the Single Outcome Agreement which are approved by Council and published on the Council's website.

b) The Council has an approved Performance Management Framework in place to enable progress to be monitored against the Council's Corporate Plan and Priorities, Single Outcome Agreement, and associated Service Plans and Financial Plans and to ensure it reports publicly on its performance.

c) The Council responds to findings and recommendations of external audit, scrutiny and inspection bodies and its own independent internal audit section. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

d) The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.

e) 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.

f) 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.

g) The Council fosters relationships and partnerships with other public, private, and voluntary organisations in delivering services that meet the needs of the local community. Significant work has been undertaken to develop the governance arrangements in respect of the Health and Social Care integration programme with the establishment of a Health and Social Care Shadow Integration Board with effect from 7 April 2014 until 1 April 2015.

h) 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.

i) The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the personal appraisal and development scheme (PRD). PRD training consists of courses and materials that have been updated to incorporate guidance on links with the Business Planning process and the Corporate Vision, Standards and Values.

j) 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.

k) The Chief Social Work Officer (since 3 February 2014; previously Acting Director of Social Work) in discharging her statutory role as Chief Social Work Officer (CSWO) provides the Council with professional advice on the discharge of their 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.

l) 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 including counter fraud policies and procedures.

m) The Service Director Regulatory Services (since 14 March 2014; previously Head of Corporate Governance) (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.

n) The Chief Officer Audit & Risk (HIA) reports administratively to the Service Director Strategy & Policy (since 3 February 2014; previously to the Head of Corporate Governance), reports functionally to the Audit Committee, has direct access to the Chief Executive and meets regularly with the Chief Financial Officer and Monitoring Officer. The HIA reports in her own name and retains final edit rights over all internal audit reports and provides an independent and objective annual assurance statement on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements.

o) The scheme of members' remuneration sets out the terms of remuneration of elected members. Details of all members' allowances and expenses are published.

p) The Council has a risk management strategy 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 and to ensure insurable risks are covered.

q) The Council has in place business continuity plans which set out the arrangements to ensure it can continue to deliver critical services if an incident of any kind occurs, has in place emergency plans to ensure it responds to any civil emergency in a way which meets the expectations of the Borders community, and is leading a new Resilient Communities Initiative to enable communities working together in emergencies.

r) Personal development plans for elected members are being developed and these will be periodically supplemented by additional training further to the comprehensive Induction programme. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

s) 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.

t) A range of systems and procedures are in place to ensure that elected members and employees are not influenced by prejudice or conflicts of interest in dealing with our citizens. A register of elected members' interests is maintained and published on the Council's website.

Review of Framework

The Council conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit 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 directors who have responsibility for the development and maintenance of the governance environment within their department 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 by comments made by external auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2013/14 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

The review has however identified a number of areas where further improvement in our governance arrangements can be made to ensure full compliance with our Local Code:

a) The ongoing implementation of recommendations made by Internal Audit, External Audit and other audit and inspection bodies relating to internal control and governance, with particular emphasis on prompt implementation of high priority recommendations.

b) Full implementation of the Community Planning structure and arrangements with its partners to provide the mechanism for monitoring progress with delivery of programmes and projects across the three community planning themes.

c) Implementation of approved shadow governance arrangements associated with the Integration programme for Health & Social Care, ensuring delivery of structural reforms in local authority and NHS services in compliance with new legislation and regulations. These will be reviewed and refined over the year to inform the arrangements to establish the Joint Integration Board from 1 April 2015.

d) In light of the ongoing significant challenges in addressing cost pressures and responding to the changes in government funding:

   (i) ensuring that financial, workforce and other key plans are aligned to the Council's corporate plan and priorities,
   (ii) ensuring that the programme of change and transformation delivers efficient and effective services to customers, whilst maintaining a robust control environment, and
   (iii) continuing to take account of demographic and other pressures associated with particular services within joint resource planning.

e) Ongoing implementation of the Performance Management Framework to ensure it reflects performance measurement accurately and effectively linked to the delivery of the Single Outcome Agreement and the Council's Corporate Plan and Priorities, and enables the Council to fulfil its Public Performance Reporting duty.

f) Application of an appropriate self-assessment process in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, including a self assessment of Committees' effectiveness within 12 months of implementation of revised arrangements.

g) Development of written guidelines and procedures of the key financial planning, management and administration processes linked to the Financial Regulations and provision of financial training to managers and budget holders across the whole Council.

h) Ensuring the framework and principles of good corporate governance are in place within joint working and partnerships.

i) Ensuring effective frameworks and robust governance structures are fully utilised for programme and project management to deliver the required return on investment and efficiencies in support of performance improvement and to support the achievement of the Council's change and transformation objectives and other Priorities.

j) Ensuring 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.

k) Monitoring and review to ensure there is a consistent approach to staff performance appraisal and development (PRD) in all Council services, and roll out workforce planning and succession planning across the Council as part of its people management arrangements.

These actions to enhance our governance arrangements in 2014/15 will be incorporated within the Council's corporate plan and their implementation and operation will be monitored in order to inform our 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 Code in all significant respects.

Tracey Logan	Councillor David Parker
Chief Executive	Leader of the Council
23 September 2014	23 September 2014

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 2013/14 the salary for the Leader of Scottish Borders Council is £32,795. 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 £286,946. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The policy for Scottish Borders Council is to have a maximum of 14 Senior Councillors plus a Council Leader and Convener.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader and Convenor, is £283,823. 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.

Remuneration of Senior Employees

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

A senior employee is any employee who:

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

Remuneration Report

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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£50,000 - £54,999 * ^	-	-	42	46	8	9	**50**	**55**
£55,000 - £59,999 ^	5	3	8	8	2	1	**15**	**12**
£60,000 - £64,999 ^	2	3	3	3	1	-	**6**	**6**
£65,000 - £69,999	2	1	-	1	-	-	**2**	**2**
£70,000 - £74,999 ^	11	10	4	3	2	-	**17**	**13**
£75,000 - £79,999	-	2	-	-	-	-	**-**	**2**
£80,000 - £84,999 ^	2	1	1	-	-	-	**3**	**1**
£85,000 - £89,999	1	1	-	-	-	-	**1**	**1**
£90,000 - £94,999	-	-	-	-	-	-	**-**	**-**
£95,000 - £99,999 *	-	1	-	-	-	-	**-**	**1**
£100,000 - £104,999	3	2	-	-	-	-	**3**	**2**
£105,000 - £109,999	-	-	-	-	-	-	**-**	**-**
£110,000 - £114,999	-	-	-	-	-	-	**-**	**-**
£115,000 - £119,999	1	1	-	-	-	-	**1**	**1**
£120,000 - £124,999	-	-	-	-	-	-	**-**	**-**
Total	27	25	58	61	13	10	**98**	**96**

Key:

* Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2013/14.

^ Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2012/13

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2012/13 £	Councillor Name	Responsibility	Total Remuneration 2013/14 £
31,335	D Parker	Leader of the Council	32,795
23,197	G Garvie	Convener	24,596
54,532		**Leader and Convenor Remuneration**	**57,391**
21,276	J Mitchell	Depute Leader of the Council	24,596
21,015	M Cook	Executive Member for HR and Corporate Improvement	22,220
20,727	V Davidson	Executive Member for Culture, Sport, Youth & Communities	22,220
20,727	F Renton	Executive Member for Social Work & Housing	22,220
24,810	D Moffat	Executive Member for Community Safety	22,220
19,220	J Brown	Executive Member for Community Planning/Vice Convener	22,220
18,806	A Aitchison	Executive Member for Education	22,220
18,806	S Bell	Executive Member for Economic Development	22,220
18,806	G Edgar	Executive Member for Roads and Infrastructue	22,220
18,806	D Paterson	Executive Member for Environmental Services	22,220
15,306	W Archibald	Convener of the Licensing Board	19,947
9,132	M Ballantyne	Leader of Opposition	19,947
21,068	R Smith	Executive Member for Planning and Environment	15,530
		until 11 July 2013 and from 31 October 2013	(FYE 22,220)
2,226	A Nicol	Executive Member for Planning and Environment	3,823
		from 29 August 2013 to 30 October 2013	(FYE 22,220)
250,731		**Total Other Senior Councillor Remuneration**	**283,823**
305,263		**Total Senior Councillor Remuneration**	**341,214**

(1) The total remuneration figures relate to the salary, fees and allowance for 2013-14 are as included in the Comprehensive Income and Expenditure Statement and are only in respect of monies paid to Councilors 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.

2012/13 £'000		2013/14 £'000
643	Salaries	648
118	Expenses	89
761	**Total**	**737**

The draft annual return of Councillors' salaries and expenses for 2013/14 is available on the Council's website at www.scotborders.gov.uk and was prepared on a cash basis in contrast to the accrual basis used in the Remuneration Report. The expenses figure for 2013/14 in the table above has yet to be finalised and will increase slightly to reflect those expenses not yet included.

Remuneration Report

Remuneration of Senior Employees

During 2013/14 the Council restructured its corporate management arrangements with an interim structure being put in place until the proposals for the new structure were agreed and recruitment had been completed. The final approved structure resulted in the introduction of three new service groupings (Chief Executives, People and Place) and the creation of two posts of Depute Chief Executive. One Depute, J McDiarmid, did not start employment with the Council until 7 April 2014. The structure also removed Departmental Directors and Heads of Service posts and created new Service Directors. These changes have resulted in a significant change in the number of posts reported as Senior Employees.

2012/13			2013/14			
Total Remuneration £	Name	Post Title	Salaries, fees and allowances £	Compensation for loss of employment £	Benefits other than in cash £	Total Remuneration £
117,455	TM Logan	Chief Executive	117,060	-	1,833	118,893
-	P Barr	Depute Chief Executive, appointed 31 March 2014	275 (FYE 102,228)	-	-	275
102,628	JG Rodger	Director of Education and Lifelong Learning	102,228	-	-	102,228
103,262	AC Lowe	Director of Social Work retired 29/11/2013	72,193 (FYE 102,228)	23,591	1,636	97,420
101,217	JR Dickson	Corporate Programmes & Services Director (1)	102,228	-	-	102,228
80,604	KD Robertson	Chief Financial Officer	81,476	-	-	81,476
-	SM Everingham	Acting Director of Social Work from 11 September 2013 until 31 March 2014	54,867 (FYE 98,760)	-	-	54,867
72,012	DA Cressey	Service Director Strategy & Policy (2)	78,801	-	-	78,801
72,012	HL Thompson	Head of Transformation Projects	72,732	-	-	72,732
72,012	I Wilkie	Head of Corporate Governance	72,732	-	-	72,732
68,583	J Craig	Service Director Neighbourhood Services (3)	70,663	-	-	70,663
59,229	C Hepburn	Chief Human Resources Officer (4)	63,275	-	-	63,275
-	EH Torrance	Chief Social Work Officer appointed 3 February 2014	12,526 (FYE 77,937)	-	-	12,526
13,090		Acting Director of Social Work from 19 March to 1 November 2012	-	-	-	-
-	GB Frater	Service Director Regulatory Services appointed 3 February 2014	12,526 (FYE 77,937)	-	-	12,526
-	M Joyce	Interim Capital Projects Service Director appointed 3 February 2014 (5)	30,892 (FYE 72,732)	-	-	30,892
862,104		**Total**	**944,474**	**23,591**	**3,469**	**971,534**

No SBC senior employees received remuneration from subsidiaries during 2013/14.

Notes

(1) JR Dickson transferred from the post of Director of Environment & Infrastructure to Corporate Programmes & Services Director on 3 February 2014.

(2) DA Cressey transferred from the post of Head of Strategic Policy to Service Director Strategy & Policy on 3 February 2014.

(3) J Craig transferred from the post of Head of Shared Services to Service Director Neighbourhood Services on 3 February 2014.

(4) C Hepburn transferred from the post of Human Resources Manager to Chief Human Resources Officer on 3 February 2014.

(5) M Joyce was appointed to the post of Senior Project Manager on 29 October 2013, transferring to the post of Interim Capital Projects Service Director on 3 February 2014.

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).

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2013/14 and 2012/13:

Exit Package Cost band (including special payments) 2013/14	Number of Compulsory Redundancies	Number of Other Agreed Departures	**Total Number of Exit Pages by Cost Band**	Total cost of Exit Packages in each band £
£0 - £20,000	2	25	**27**	182,471
£20,001 - £40,000		5	**5**	151,546
£40,001 - £60,000		2	**2**	99,615
£60,001 - £80,000		2	**2**	140,263
£80,001 - £100,000		1	**1**	86,999
£100,001 - £150,000		2	**2**	239,558
£150,001 - £200,000		1	**1**	162,874
Total	2	38	**40**	1,063,326

The total costs of £1.063m 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. A provision of £0.164m was set aside in 2012/13 to fund part of these costs associated with exit packages agreed before 31 March 2013. In addition the Council's Comprehensive Income and Expenditure Statement includes a provision for £0.736m relating to exit packages agreed in 2013/14 for staff departures which will happen in 2014/15. These costs are not included in the pay bandings shown in the Pay Bandings table above.

Exit Package Cost band (including special payments) 2012/13	Number of Compulsory Redundancies	Number of Other Agreed Departures	**Total Number of Exit Pages by Cost Band**	Total cost of Exit Packages in each band £
£0 - £20,000	-	40	**40**	403,824
£20,001 - £40,000	-	24	**24**	707,174
£40,001 - £60,000	-	5	**5**	231,587
£60,001 - £80,000	-	2	**2**	127,955
£80,001 - £100,000	-	3	**3**	266,873
£100,001 - £150,000	-	-	**-**	-
£150,001 - £200,000	-	1	**1**	150,665
Total	-	75	**75**	1,888,078

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 2013/14 were as follows:

Whole Time Pay	2013/14
On earnings up to and including £19,800	5.50%
On earnings above £19,800 and up to £24,200	7.25%
On earnings above £24,200 and up to £33,200	8.50%
On earnings above £33,200 and up to £44,200	9.50%
On earnings above £44,200	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 guarantees 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).

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 retrial") 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 2014 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 2013 £	For year to 31 March 2014 £	Type	As at 31 March 2014 £	Difference from 31 March 2013 £
D Parker	Leader of the Council	5,742	5,903	Pension	3,778 p.a.	631 p.a.
				Lump Sum	2,527	35
G Garvie	Convener	3,653	4,427	Pension	756 p.a.	418 p.a.
				Lump Sum	-	-
J Mitchell	Depute Leader of the Council	4,199	4,427	Pension	2,139 p.a.	447 p.a.
				Lump Sum	1,430	90
M J Cook	Executive Member for HR and Corporate Improvement	3,940	4,000	Pension	2,749 p.a.	435 p.a.
				Lump Sum	1,838	5
V Davidson	Executive Member for Culture, Sport, Youth & Communities	3,888	4,000	Pension	2,478 p.a.	424 p.a.
				Lump Sum	1,657	31
D P Moffat	Executive Member for Community Safety	3,840	4,000	Pension	2,230 p.a.	415 p.a.
				Lump Sum	1,492	55
J Brown	Executive Member for Community Planning/Vice Convener	3,829	4,000	Pension	3,113 p.a.	436 p.a.
				Lump Sum	4,515	151
A Aitchison	Executive Member for Education	3,809	4,000	Pension	2,068 p.a.	409 p.a.
				Lump Sum	1,383	70
S Bell	Executive Member for Economic Development	3,550	4,000	Pension	706	386 p.a.
				Lump Sum	-	-
G Edgar	Executive Member for Roads and Infrastructue	3,550	4,000	Pension	706	386 p.a.
				Lump Sum	-	-
D Paterson	Executive Member for Environmental Services	3,809	4,000	Pension	6,546 p.a.	526 p.a.
				Lump Sum	14,815	418
W Archibald	Convener of the Licensing Board	3,413	3,590	Pension	1,997 p.a.	372 p.a.
				Lump Sum	1,336	49
R Smith	Executive Member for Planning and Environment until 11 July 2013 and from 31 October 2013	3,894	3,684	Pension	2,285 p.a.	391 p.a.
				Lump Sum	1,528	28
Total		**51,116**	**54,031**			

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 2014 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 2014.

Name	Post Title	In-year pension contributions: For year to 31 March 2013 £	In-year pension contributions: For year to 31 March 2014 £	Accrued pension benefits: Type	Accrued pension benefits: As at 31 March 2014 £	Accrued pension benefits: Difference from 31 March 2013 £
TM Logan	Chief Executive	20,862	21,071	Pension Lump Sum	33,788 p.a. 72,100	2,266 p.a. 713
P Barr	Depute Chief Executive appointed 31 March 2014	-	-	Pension Lump Sum	5 p.a. -	5 p.a. -
JG Rodger	Director of Education and Lifelong Learning	18,473	18,401	Pension Lump Sum	46,308 p.a. 113,368	1,529 p.a. (443)
AC Lowe	Director of Social Work retired 29/11/2013	18,326	12,216	Pension Lump Sum	53,061 p.a. 120,250	8,610 p.a. 7,260
JR Dickson	Corporate Programme & Service Director (1)	18,219	18,401	Pension Lump Sum	4,869 p.a. -	1,735 p.a. -
KD Robertson	Chief Financial Officer	14,509	14,666	Pension Lump Sum	23,652 p.a. 50,586	1,597 p.a. 543
SM Everingham	Acting Director of Social Work from 11 September 2013 until 31 March 2014	-	15,669	Pension Lump Sum	31,850 p.a. 74,112	6,685 p.a. 12,764
DA Cressey	Service Director Strategy & Policy (2)	12,962	14,184	Pension Lump Sum	32,795 p.a. 78,900	3,358 p.a. 5,159
HL Thompson	Head of Transformation Projects	12,962	13,092	Pension Lump Sum	39,042 p.a. 98,943	1,587 p.a. 980
I Wilkie	Head of Corporate Governance	12,962	13,092	Pension Lump Sum	34,222 p.a. 84,484	1,539 p.a. 837
J Craig	Service Director Neighbourhood Services (3)	12,345	12,719	Pension Lump Sum	22,849 p.a. 50,892	1,803 p.a. 1,470
C Hepburn	Chief Human Resources Officer (4)	10,661	10,768	Pension Lump Sum	5,649 p.a. 1,991	1,043 p.a. 19
EH Torrance	Chief Social Work Officer appointed 3 February 2014	15,459	13,689	Pension Lump Sum	33,140 p.a. 80,421	(2,862) p.a. (10,409)
GB Frater	Service Director Regulatory Services appointed 3 February 2014	-	13,242	Pension Lump Sum	32,539 p.a. 79,232	1,878 p.a. 1,651
M Joyce	Interim Capital Projects Service Director appointed 3 February 2014 (5)	-	5,560	Pension Lump Sum	511 p.a. -	511 p.a. -
Total		**167,740**	**196,770**			

Notes

For details regarding post changes refer to notes on page 20.

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. 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.

Tracey Logan
Chief Executive
23 September 2014

Councillor David Parker
Leader of the Council
23 September 2014

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.

	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**	
Prior Period Adjustment						515	**515**	
Balance at 01/04/2012	(12,460)	(5,633)	(28)	(1,398)	**(19,519)**	(6,166)	**(25,685)**	
Movement in reserves during 2012/13								
(Surplus)/deficit on provision of services	76,255	-	-	-	**76,255**	-	**76,255**	
Other Comprehensive Income & Expenditure	-	100	-	-	**100**	(19,804)	**(19,704)**	
Total Comprehensive Income & Expenditure	76,255	100	-	-	**76,355**	(19,804)	**56,551**	
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(19,609)	-	-	-	**(19,609)**	19,609	**-**	**12 & 14**
Impairment losses (charged to CI&ES)	(661)	-	-	-	**(661)**	661	**-**	
Revaluation Losses	(28,499)	-	-	-	**(28,499)**	28,499	**-**	
Capital grants and contributions applied	14,986	-	-	-	**14,986**	(14,986)	**-**	**28**
Finance Lease Adjustments	60	-	-	-	**60**	(60)	**-**	
Icelandic Banks Statutory Adjustment	202	-	-	-	**202**	(202)	**-**	**29**
Employee Statutory Adjustments	476	-	-	-	**476**	(476)	**-**	
Profit/(Loss) on disposal of assets	(44,361)	(514)	-	-	**(44,875)**	44,875	**-**	
Revenue Exp Funded From Capital	(2,861)	-	-	-	**(2,861)**	2,861	**-**	**10**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	211	-	-	-	**211**	(211)	**-**	
Net retirement charges per IAS 19	(23,207)	-	-	-	**(23,207)**	23,207	**-**	
Loans Fund principal repayments and Statutory premia	10,147	-	-	-	**10,147**	(10,147)	**-**	
Capital Expenditure charged to General Fund balance	-	-	-	-	-	-	**-**	
Employers contribution payable to Pension Fund	12,055	-	-	-	**12,055**	(12,055)	**-**	
Net (Increase)/Decrease before transfers	**(4,806)**	**(414)**	-	-	**(5,220)**	**61,771**	**56,551**	
Net Transfers to or (from) other reserves	2,247	(753)	(105)	10	**1,399**	(1,400)	**(1)**	
(Increase)/Decrease in 2012/13	**(2,559)**	**(1,167)**	**(105)**	**10**	**(3,821)**	**60,371**	**56,550**	
Balance at 31/03/2013	**(15,019)**	**(6,800)**	**(133)**	**(1,388)**	**(23,340)**	**54,205**	**30,865**	

Movement in Reserves Statement

	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 01/04/2013	(15,019)	(6,800)	(133)	(1,388)	**(23,340)**	54,205	**30,865**	**31**
Movement in reserves during 2013/14								
(Surplus)/deficit on provision of services	6,436	-	-	-	**6,436**	-	**6,436**	
Other Comprehensive Income & Expenditure	-	-	-	-	-	(10,694)	**(10,694)**	
Total Comprehensive Income & Expenditure	6,436	-	-	-	**6,436**	(10,694)	**(4,258)**	
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(19,993)	-	-	-	**(19,993)**	19,993	**-**	**12 & 14**
Impairment Losses (charged to CI&ES)	(618)	-		-	**(618)**	618	**-**	
Revaluation Losses	(3,064)	-	-	-	**(3,064)**	3,064	**-**	
Capital grants and contributions applied	14,868	-	-	-	**14,868**	(14,868)	**-**	**28**
Finance Lease Adjustments	-	-	-	-	**-**	-	**-**	
Icelandic Banks Statutory Adjustment	605	-	-	-	**605**	(605)	**-**	**29**
Icelandic Loss Adustment	(585)	-	-	-	**(585)**	585	**-**	
Employee Statutory Adjustments	(1,370)	-	-	-	**(1,370)**	1,370	**-**	
Profit/(Loss) on disposal of assets	349	(1,181)	-	-	**(832)**	832	**-**	
Revenue Exp Funded From Capital	(529)				**(529)**	529	**-**	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	205	-	-	-	**205**	(205)	**-**	
Net retirement charges per IAS 19	(24,093)	-	-	-	**(24,093)**	24,093	**-**	
Loans Fund principal repayments and Statutory premia	11,717	-	-	-	**11,717**	(11,717)	**-**	
Capital Expenditure charged to General Fund balance	432	-	-	-	**432**	(432)	**-**	
Employers contribution payable to Pension Fund	11,609	-	-	-	**11,609**	(11,609)	**-**	
Net (Increase)/Decrease before transfers	**(4,031)**	**(1,181)**	-	-	**(5,212)**	**954**	**(4,258)**	
Net Transfers to or (from) other reserves	1,913	1,058	(167)	27	**2,832**	(2,832)	**-**	
(Increase)/Decrease in 2013/14	**(2,118)**	**(123)**	**(167)**	**27**	**(2,380)**	**(1,878)**	**(4,258)**	
Balance at 31/03/2014	**(17,136)**	**(6,923)**	**(300)**	**(1,361)**	**(25,720)**	**52,327**	**26,607**	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.

Restated 2012/13 Gross Expenditure	Restated 2012/13 Gross Income	Restated 2012/13 Net Expenditure		2013/14 Gross Expenditure	2013/14 Gross Income	2013/14 Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
135,640	(4,116)	131,524	Education	112,319	(4,796)	107,523	
36,537	(31,417)	5,120	General Fund Housing Services	35,621	(31,646)	3,975	
16,835	(1,057)	15,778	Cultural & Related Services	12,055	(1,503)	10,552	
20,459	(2,741)	17,718	Environmental Services	24,500	(2,345)	22,155	
23,165	(5,300)	17,865	Roads & Transport Services	21,988	(6,095)	15,893	
7,157	(2,859)	4,298	Planning & Development Services	8,295	(3,323)	4,972	
90,515	(15,976)	74,539	Social Work	92,527	(16,022)	76,505	
9,017	(3,460)	5,557	Central Services	11,283	(3,000)	8,283	
1,468	-	1,468	Non-Distributed Costs	2,445	-	2,445	
2,863	-	2,863	Exceptional Items	-	-	-	
343,656	**(66,926)**	**276,730**	**Services provided by the Council**	**321,033**	**(68,730)**	**252,303**	
8,724	-	8,724	Lothian & Borders Police Board	-	-	-	
7,009	-	7,009	Lothian & Borders Fire Board	-	-	-	
359,389	**(66,926)**	**292,463**	**Net Cost of Services**	**321,033**	**(68,730)**	**252,303**	
		(66)	Roads Trading Operation (Surplus)/Deficit (External)			(290)	8
			Other Operating Expenditure				
		44,361	(Gain)/Loss on Disposal of Assets			(785)	
			Financing & Investment Income and Expenditure				
		12,380	Interest Payable & Similar Charges			11,908	29
		(251)	Interest Receivable & Similar Income			(159)	29
		8,150	Net Interest Expense on the Net Defined Benefit Liability			8,389	20
			Taxation and Non-Specific Grant Income				
		(188,490)	Revenue Support Grant			(176,318)	
		(26,489)	Non-Domestic Rates Pool for Scotland			(28,503)	
		(50,817)	Council Tax			(45,241)	
		(14,986)	Capital Grants and Contributions			(14,868)	28
		76,255	**(Surplus)/Deficit on Provision of Services**			**6,436**	

Comprehensive Income and Expenditure Account

2012/13				2013/14			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
		76,255	**(Surplus)/Deficit on Provision of Services**			**6,436**	
		(16,529)	(Surplus)/Deficit on revaluation of Non Current Assets			(5,357)	
		100	Any Other (Gains) Or Losses			(2)	
		(3,275)	Actuarial (gains)/losses on pension assets/liabilities			(5,335)	
		(19,704)	**Other Comprehensive Income and Expenditure**			(10,694)	
		56,551	**Total Comprehensive Income and Expenditure**			**(4,258)**	

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'.

Restated 2012/13 £'000		2013/14 £'000	Notes
	Property Plant and Equipment		
287,297	Other Land and Buildings	291,628	12
15,220	Vehicle, Plant, Furniture & Equipment	14,125	12
80,562	Infrastructure	83,294	12
7,572	Surplus Assets	6,721	12
13,819	Assets Under Construction	18,452	12
982	Heritage Assets	997	13
268	Intangible Assets	365	14
3,670	Long Term Debtors	4,593	29
409,390	**Long Term Assets**	**420,175**	
4,559	Short Term Investments	-	
952	Inventories	922	24
37,648	Short Term Debtors	32,160	30
(7,628)	less Bad Debt Provision	(8,570)	
5,893	Cash and Cash Equivalents	13,692	34
41,424	**Current Assets**	**38,204**	
(9,374)	Short Term Borrowing	(3,390)	29
(43,083)	Short Term Creditors	(47,517)	29
(913)	Provisions	(2,599)	25
(53,370)	**Current Liabilities**	**(53,506)**	
(172,060)	Long Term Borrowing	(171,895)	29
(57,869)	Deferred Liabilities	(55,873)	
(233)	Finance Leases/Bonds	-	
(3,451)	Due to Trust Funds and Common Good	(615)	
(3,447)	Capital Grants Receipts in Advance	(4,699)	
(237,060)	**Long Term Liabilities**	**(233,082)**	
160,384	**Net Assets excluding pension liability**	171,791	
(191,249)	Pension Liability	(198,398)	20
(30,865)	**Net Assets/(Liabilities) including pension liability**	**(26,607)**	

Balance Sheet

2012/13 £'000	Financed By:	2013/14 £'000	Notes
	Useable Reserves		
(6,800)	Capital Fund	(6,923)	31
(15,019)	General Fund Balance	(17,136)	
(133)	Property Maintenance Fund	(300)	
(1,388)	Insurance Fund	(1,361)	
	Unusable Reserves		
(84,883)	Capital Adjustment Account	(91,771)	31
5,806	Financial Instruments Adjustment Account	5,601	
(65,662)	Revaluation Reserve	(68,361)	
191,249	Pension Reserve	198,398	
7,090	STACA Statutory Mitigation Account	8,460	
605	Icelandic Banks Statutory Adjustment Account	-	
30,865	**Total Reserves**	**26,607**	

The unaudited accounts were issued on 30 June 2014 and the audited accounts were authorised for issue on the 23 September 2014.

David Robertson CPFA
Chief Financial Officer
23 September 2014

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.

Restated 2012/13 £'000		2013/14 £'000	2013/14 £'000	Notes
76,255	**Net (Surplus) or deficit on the provision of services**	**6,436**		
(97,518)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(41,096)		32
15,485	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	13,891		32
(5,778)	**Net Cash Flows From Operating Activities**		**(20,769)**	
	Investing Activities			
23,749	Purchase of PP&E, investment property and intangible assets	27,100		
(514)	Proceeds from PP&E, investment property and intangible assets	(1,169)		
722	Purchase/(Disposal) of short & long term investments	(4,995)		
(13,824)	Other Items which are Investing Activities	(16,443)		
10,133	**Net Cash Flows from Investing Activities**		**4,493**	
	Financing Activities			
(6,185)	Cash received from loans & other borrowing	-		
1,820	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,880		
127	Repayments of short and long term borrowing	6,136		
(375)	Other items which are financing activities	461		
(4,613)	**Net Cash Flows from Financing Activities**		**8,477**	
(258)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(7,799)**	
5,635	Cash and Cash Equivalents at the beginning of the reporting period		5,893	
5,893	Cash and Cash Equivalents at the end of the reporting period		13,692	34
(258)	Movement		**(7,799)**	

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985. 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 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of 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. This scheme is currently in the last year of its introductory phase which ends on 31 March 2014. 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.

Accounting Polices

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 Polices

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 4.5% (based on the yield at the 20 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:

The Local Government Pension Scheme
The change in the net pensions 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), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

Remeasurements comprising:

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

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Scottish Borders Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

Events after the Reporting Period

Events after the Balance Sheet are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is 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 Statement of Accounts is adjusted to reflect such events

- Those that are indicative of conditions that arose after the reporting period – the Statement of 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 Statement of 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 Polices

Financial Liabilities:

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

All debt instruments were re-measured at amortised cost as at 1 April 2007. For loans with a constant rate of interest there is no change in practice. However the Council does hold some stepped interest loans. These

have been re-measured using the Effective Interest Rate (EIR) method which smoothes out the interest rate over the entire loan period. These loans are shown in the Balance Sheet at a carrying amount which reflects the consequence of this smoothing calculation and is inclusive of accrued interest. For all non-EIR loans the Balance Sheet carrying amount now also includes accrued interest.

Financial Assets:

Financial assets can be classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available for sale assets – assets that have a quoted market price and/or do not have a fixed or determinable payments.

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

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

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

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

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

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

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.

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 Polices

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.

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg 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 (ie 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 2013/14 (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:

- 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 Polices

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.

- 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 Polices

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 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.

Redemption of Debt and Interest Charges

The Council administers a Loans Fund as required by Schedule 3 to the Local Government (Scotland) Act 1975. Repayments of principal to the Fund are charged over the appropriate borrowing period, utilising an annuity type method. Interest charges are made in accordance with the average rate paid by the Loans Fund and are calculated on the basis of advances outstanding at the commencement of the financial year and the equated monthly net capital expenditure during the year. All interest calculations, including those relating to interest on revenue balances, are in accordance with the recommendations of LASAAC.

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 2013/14, there has been no first time adoption of Accounting Standards.

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.

IFRS9 Financial Instruments

IAS18 Revenue Recognition

IAS32 Offsetting Financial Assets and Financial Liabilities

IAS36 Recoverable Amount Disclosures for Non-Financial Assets

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 Statement of 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.

- Public Private Partnerships (PPP) – The Council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The Council controls the services provided under the scheme and ownership of the schools will pass to the Council at the end of the contract. The schools are therefore recognised as assets on the Council's balance sheet.

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

The Statement of 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:

There have been presentational changes in 2013/14 to this note and therefore the 2012/13 figures have been restated in order to aid comparison between current and prior year.

Various items are not reported to management or included in Net Cost of Services and these are year end accounting adjustments such as ISA19 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 2013/14

	Chief Executive £'000	Education & Lifelong Learning £'000	Social Work £'000	Enviroment & Infrastructure £'000	Other £'000	Total £'000
Employee Costs	23,931	64,826	38,394	21,405	1,220	149,776
Premises Costs	2,623	9,515	911	2,178	2,189	17,416
Transport Costs	464	3,932	3,185	16,779	2	24,362
Supplies & Services Costs	7,297	6,598	1,520	7,489	6,794	29,698
Third Party Payments	3,501	13,321	46,291	3,087	510	66,710
Transfer Payments	-	569	389	-	30,130	31,088
Support Services	(174)	339	504	140	77	886
Capital Charges	64	-	-	25	19,765	19,854
Income	(11,855)	(5,060)	(16,171)	(21,399)	(30,746)	(85,231)
	25,851	94,040	75,023	29,704	29,941	254,559

Reconciliation to Subjective Analysis 2013/14

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)

	Departmental Analysis £'000	Amounts not in Net Cost of Services £'000	Not reported to Management £'000	Not included in CIES £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employee Costs	149,776	290	5,475	-	155,541	8,389	163,930
Premises Costs	17,416	-	(160)	-	17,256	-	17,256
Transport Costs	24,362	-	(25)	-	24,337	-	24,337
Supplies & Services Costs	29,698	(5,829)	(8)	-	23,861	-	23,861
Third Party Payments	66,710	(4,844)	-	-	61,866	-	61,866
Transfer Payments	31,088	-	-	-	31,088	-	31,088
Support Services	886	-	22,230	-	23,116	-	23,116
Capital Charges	19,854	(10,615)	22,589	(9,148)	22,680	11,124	33,804
Income	(85,231)	19	(22,230)	-	(107,442)	(265,380)	(372,822)
	254,559	(20,979)	27,871	(9,148)	252,303	(245,868)	**6,436**

The total of £6.436m refers to the Deficit on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 27.

Notes to the Core Financial Statements

Departmental Income and Expenditure 2012/13

	Chief Executive £'000	Education & Lifelong Learning £'000	Social Work £'000	Enviroment & Infrastructure £'000	Other £'000	Total £'000
Employee Costs	21,028	65,110	40,189	17,850	1,505	145,682
Premises Costs	3,790	9,401	1,865	1,944	2,505	19,505
Transport Costs	376	3,809	3,590	13,449	16	21,240
Supplies & Services Costs	5,869	6,635	1,813	6,548	16,459	37,324
Third Party Payments	1,076	7,944	49,132	12,034	2,523	72,709
Transfer Payments	-	525	347	-	29,491	30,363
Support Services	504	394	503	112	107	1,620
Capital Charges	25	4,876	25	56	19,733	24,715
Income	(12,324)	(4,557)	(18,518)	(19,194)	(31,762)	(86,355)
	20,344	94,137	78,946	32,799	40,577	266,803

Reconciliation to Subjective Analysis 2012/13

	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	145,682	66	2,526	-	148,274	8,149	156,423
Premises Costs	19,505	-	(2,407)	-	17,098	-	17,098
Transport Costs	21,240	-	2,200	-	23,440	-	23,440
Supplies & Services Costs	37,324	-	10	-	37,334	-	37,334
Third Party Payments	72,709	-	(1,471)	-	71,238	-	71,238
Transfer Payments	30,363	-	-	-	30,363	-	30,363
Support Services	1,620	-	21,079	-	22,699	-	22,699
Capital Charges	24,715	(14,462)	49,325	(10,147)	49,431	56,741	106,172
Income	(86,355)	20	(21,079)	-	(107,414)	(281,099)	(388,512)
	266,803	(14,376)	50,183	(10,147)	292,463	(216,209)	**76,255**

The total of £76.255m refers to the Deficit on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 27.

Notes to the Core Financial Statements

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2013/14 financial year.

Note 7 Prior Year Adjustments

There have been prior year adjustments made in the Comprehensive Income & Expenditure Account to reflect the adoption of the revised IAS19 standard - Employee Benefits. This has resulted in a change to the (Suplus)/Deficit on Provision of Services from £71.146m to £76.255m.

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:

2012/13 £'000		2013/14 £'000	3 Year Cumulative £'000
(21,770)	Turnover for the Year	(11,565)	(59,306)
(228)	(Surplus) / Deficit	(585)	(792)

SBc Contracts undertakes a wide range of activities including:

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

SBc Contracts employs 43 manual workers and around 14 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The organisation continued to contribute strongly to Council resources both directly and indirectly through:

- Supporting additional high added-value jobs within the council.
- Maintaining very competitive charge-out rates to offer "Best Value" for Council Revenue and Capital projects.

In 2013/14 SBc Contracts recorded an annual surplus of £0.585m. As a result of a departmental restructure and the creation of a Neighbourhood Service to deliver environmental and roads revenue works, the turnover in 2013/14 reduced by £10.2m, or 46.9%, to £11.6m. Of the total turnover, £5.2m, or 45% was generated by non Scottish Borders Council work, a reduction of £2.82m (35.2% year on year) which was a result of the re-structure and the difficult economic conditions within the construction industry. SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £3.6m during 2013/14. Despite the reduction in turnover, profitability improved to a surplus of £0.585m, an increase of £0.357m on the previous year. Within the overall £0.585m surplus generated in 2013/14 £0.290m was generated from external work and £0.295m was generated on 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 2013/14 SBc Contracts recorded a surplus in two of the three years and generated a cumulative total surplus of £0.792m.

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 2013/14 Scottish Borders Council received £0.322m (2012/13 £0.322m) in commission from Scottish Water as part of the agency agreement.

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 2013/14. 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 2013/14, the Scottish Borders Council Pension Fund had an average balance of £6.081m (2012/13: £4.178m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.022m (2012/13: £0.019m). In addition the Council charged the Pension Fund £0.268m in respect of expenses incurred in administering the Fund.

	2012/13	**2013/14**
Due to the Scottish Borders Council Pension Fund	£0.483m	£0.031m

The Council provided routine material financial assistance to other bodies in 2013/14 as follows:

- Borders Sport and Leisure Trust £1.430m
- Jedburgh Leisure Facilities Trust £0.124m
- VisitScotland £0.118m

The Police and Fire Reform (Scotland) Act 2012 received royal assent in 7 August 2012. Responsibility for Police and Fire and Rescue Services transferred from local government to new central government bodies on 1 April 2013. The local Joint Boards are no longer responsible for service provision and the Councils' funding from the Scottish Government has been reduced to reflect the new arrangements. The Council's Policy & Resources Committee (Police, Fire & Community Safety) is responsible for the governance arrangements around local service delivery by the new national bodies.

The end of the Council's involvement in Police and Fire joint boards has given rise to a review of the requirement to produce Group Accounts resulting in a reassessment of the consideration process determining significant influence as well as quantitative and qualitative materiality. On the basis of the review there is no longer a requirement to produce Group Accounts in 2013/14.

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 £2.480m was transferred from NHS Borders and utilised as follows:

Children's Services	£0.103m
Older People	£1.257m
Adults with Learning Difficulties	£0.949m
People with Mental Health Needs	£0.123m
Support Services	£0.048m

Other funding from NHS Borders in 2013/14 to support services are:

Older people	£0.078m
Adults with Learning Difficulties	£1.005m
People with Mental Health Needs	£0.288m
People with Physical Difficulties	£0.359m
Other Support Services	£0.040m
Children's Services	£0.012m

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.613m in 2013/14 with a contribution from the NHS Borders of £0.266m.

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 continues to fully support the implementation of Borders Railway with the completion of phase 1 of the utilities works and support to the Partnership.

Scottish Borders Council is a corporate member of Tweedside NHT 2011 LLP, which has 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 in respect of housing units located in Balnakiel and Innerleithen. The Council paid £1.59m in respect of advances to Tweedside NHT 2011 LLP during 2013/14 and received £0.46m capital repayment from the LLP during the same period. In addition the Council received interest on the advance from the LLP. The Council's net advances to Tweedside NHT 2011 LLP are shown within long term debtors on the Council's balance sheet.

Note 11 Audit Remuneration

In 2013/14 the agreed audit fee for the year was £0.275m in respect of services provided by KPMG. (2012/13 £0.278m)

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2013/14

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE * £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2013	**298,105**	**47,981**	**144,172**	**13,819**	**7,941**	**982**	**513,000**
Prior Period adjustment	-	-	-	-	-	-	-
Revised Gross book value (GBV) at 31 March 2013	**298,105**	**47,981**	**144,172**	**13,819**	**7,941**	**982**	**513,000**
Acquisitions & Recognition in the year	3,833	5,159	7,794	11,779	184	15	**28,764**
Transfers between categories	6,019	(586)	766	(7,146)	806	-	**(141)**
Revaluations	8,922	-	9	-	250	-	**9,181**
Impairments	(6,478)	(440)	-	-	(1,727)	-	**(8,645)**
Disposals	(465)	(1,913)	-	-	(511)	-	**(2,889)**
Gross book value (GBV) at 31 March 2014	**309,936**	**50,201**	**152,741**	**18,452**	**6,943**	**997**	**539,270**
Cumulative depreciation at 31 March 2013	**(10,808)**	**(32,761)**	**(63,610)**	**-**	**(369)**	**-**	**(107,548)**
Prior Period adjustment	-	-	-	-	-	-	-
Revised Cumulative depreciation at 31 March 2013	**(10,808)**	**(32,761)**	**(63,610)**	**-**	**(369)**	**-**	**(107,548)**
Depreciation for the year	(8,562)	(5,163)	(5,837)	-	(292)	-	**(19,854)**
Transfers between categories	-	5	-	-	136	-	**141**
Revaluations	696	-	-	-	89	-	**785**
Impairments	216	-	-	-	137	-	**353**
Disposals	150	1,843	-	-	77	-	**2,070**
Cumulative depreciation at 31 March 2014	**(18,308)**	**(36,076)**	**(69,447)**	**-**	**(222)**	**-**	**(124,053)**
Net book value at 31 March 2014	**291,628**	**14,125**	**83,294**	**18,452**	**6,721**	**997**	**415,217**
Net book value at 31 March 2013	**287,297**	**15,220**	**80,562**	**13,819**	**7,572**	**982**	**405,452**
Prior Period adjustment	-	-	-	-	-	-	-
Revised Net book value at 31 March 2013	**287,297**	**15,220**	**80,562**	**13,819**	**7,572**	**982**	**405,452**

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2013/14.

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 they are all included in Other Land & Buildings.

Notes to the Core Financial Statements

Negative revaluations are shown within the stated figures for impairment. In 2013/14 this amounted to a NBV of £8.291m.

Of the change in cost shown within revaluations the net amount of £9.967m was charged to the Revaluation Reserve (12/13 £22.032m)
For net impairments £3.681m was charged to the CIES (12/13 £29.160m) and £4.610m charged to the Revaluation Reserve (£5.502m in 12/13)

Comparative Movements in 2012/13

	Property Plant & Equipment - RESTATED						
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2012	**329,038**	**51,599**	**132,591**	**63,120**	**5,975**	**971**	**583,294**
Prior Period adjustment			**4,670**	**(4,670)**			**0**
Acquisitions & Recognition in the year	4,351	3,806	5,887	6,569	10	11	**20,634**
Transfers between categories	3,028	-	1,024	(6,829)	2,781	-	**4**
Revaluations	8,320	-	-	-	(95)	-	**8,225**
Impairments	(46,184)	(338)	-	-	(692)	-	**(47,214)**
Disposals	(448)	(7,086)	-	(44,371)	(38)	-	**(51,943)**
Gross book value (GBV) at 31 March 2013	**298,105**	**47,981**	**144,172**	**13,819**	**7,941**	**982**	**513,000**
Cumulative depreciation at 31 March 2012	**(29,084)**	**(34,570)**	**(57,481)**	**-**	**(105)**	**-**	**(121,240)**
Prior Period adjustment			**(515)**				**(515)**
Depreciation for the year	(8,134)	(5,167)	(5,614)	-	(301)	-	**(19,216)**
Transfers between categories	681	-	-	-	(685)	-	**(4)**
Revaluations	13,323	-	-	-	484	-	**13,807**
Impairments	12,354	(33)	-	-	231	-	**12,552**
Disposals	52	7,009	-	-	7	-	**7,068**
Cumulative depreciation at 31 March 2013	**(10,808)**	**(32,761)**	**(63,610)**	**-**	**(369)**	**-**	**(107,548)**
Net book value at 31 March 2013	**287,297**	**15,220**	**80,562**	**13,819**	**7,572**	**982**	**405,452**
Net book value at 31 March 2012	**299,954**	**17,029**	**75,110**	**63,120**	**5,870**	**971**	**462,054**

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2014 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 £6.2m. These commitments can be categorised as follows:-

	Capital Commitments as at 1 April 2014 £'000
Engineering Infrastructure	835
Land & Property	1,125
Business Infrastructure	4,232
Total	**6,192**

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 2013/14 the fixed assets relating to Planning & Economic Development and Surplus Properties were re-valued. This included shops, industrial units and development sites. 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 and surplus 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. 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 and IT infrastructure 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 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
- 1 April 2010 – Technical Services and Surplus Properties
- 1 April 2009 – Industrial Units and other Planning & Economic Development properties Common Good & Trust Properties

Common Good & Trust Properties will be revalued as at 1 April 2014 with the resulting adjustments incorporated into the 2014/15 accounts of the Council.

	Property Plant & Equipment						
	Other Land & Buildings £'000	**VPFE £'000**	**Infrastructure £'000**	**Assets under Construction £'000**	**Surplus Assets £'000**	**Heritage Assets £'000**	**Total Assets £'000**
Carried at Historical Cost	93,973	50,206	152,732	18,202	1,550	997	**317,660**
New Certified Valuation							
1st April 2013	9,618	-	9	-	340	-	**9,967**
1st April 2012	21,643	-	-	-	389	-	**22,032**
1st April 2011	2,613	-	-	-	857	-	**3,470**
1st April 2010	2,019	-	-	-	122	-	**2,141**
1st April 2009	23,285	-	-	-	-	-	**23,285**
1st April 2008	151,706	-	-	250	3,801	-	**155,757**
1st April 2007	31,573	-	-	-	62	-	**31,635**
Gross book value (GBV) at 31 March 2014	**336,430**	**50,206**	**152,741**	**18,452**	**7,121**	**997**	**565,947**

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 2012	161	771	39	971	971
Additions	-	-	11	**11**	**11**
Cost or Valuation at 31 March 2013	**161**	**771**	**50**	**982**	**982**
Additions	-	-	15	**15**	**15**
Cost or Valuation at 31 March 2014	**161**	**771**	**65**	**997**	**997**

There were no disposals or revaluations regarding heritage assets in 2013/14.

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.

2012/13 £'000		2013/14 £'000
3,092	**Gross book value (GBV) at 31 March**	3,160
-	**Prior Period Adj**	2
68	Expenditure in the year	234
-	Transfers	-
3,160	**Gross book value (GBV) at 31 March**	**3,396**
(2,499)	**Cumulative amortisation at 31 March**	(2,892)
(393)	Amortisation for the year	(139)
-	Transfers	-
(2,892)	**Cumulative amortisation at 31 March**	**(3,031)**
268	**Net book value at 31 March**	**365**

There were no disposals, revaluations or impairments of intangible assets in 2013/14.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2012/13 or 2013/14.

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 2014 are as follows:

	Repayment of liability and Service Charge £'000	Interest £'000	Total £'000
Payable in 2014/15	5,896	2,867	8,763
Payable within two to five years	23,187	10,548	33,735
Payable within six to ten years	35,852	11,284	47,136
Payable within eleven to fifteen years	44,480	8,850	53,330
Payable within sixteen to twenty years	54,452	5,886	60,338
Payable within twenty one to twenty five years	61,740	1,761	63,501
Payable within twenty six to thirty years	53	(53)	-
Total	225,660	41,143	266,803

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:

2012/13 £'000 Restated		2013/14 £'000
	Net Asset Value	
55,712	Land and buildings	54,395
77	Plant and equipment	25
55,789		**54,420**

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 2012/13 £'000	Plant & Equipment 2012/13 £'000		Land & Buildings 2013/14 £'000	Plant & Equipment 2013/14 £'000
		Finance Lease Liabilities		
2,042	32	Not later than 1 year	2,190	7
6,723	-	Later than 1 year and not later than 5 years	6,637	-
51,178	-	Later than 5 years	49,236	-
		Finance Costs Payable in Future Years		
2,963	1	Not later than 1 year	2,867	1
10,950	-	Later than 1 year and not later than 5 years	10,548	-
30,935	-	Later than 5 years	27,727	-
104,791	**33**	**Minimum Lease Payments**	**99,205**	**8**

The contingent rental figure, recognised as an expense in 2013/14 in respect of the Council's PPP arrangements, was £0.7m (2012/13 £0.55m).

Operating Leases

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

2012/13 £'000		2013/14 £'000
44	Not later than 1 year	43
0	Later than 1 year and not later than 5 years	43
44	Total	**86**

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:

2012/13 £'000		2013/14 £'000
297	Not later than one year	296
990	Later than one year and not later than five years	908
6,783	Later than five years	6,560
8,070	**Total**	**7,764**

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.

Restated 2012/13 £'000		2013/14 £'000	
258,210	Opening capital financing requirement		257,739
	Capital Investment		
2,390	Consent to Borrow - National Housing Trust	1,592	
23,495	Property , plant and equipment	29,293	
68	Intangible assets	234	31,119
	Sources of Finance		
(285)	Capital Receipts	(2,430)	
(15,992)	Government grants and other contributions	(15,798)	
-	NHT Repayment of Principal	(464)	
(10,147)	Loans fund repayments	(11,718)	(30,410)
257,739	**Closing Capital Financing Requirement**		**258,448**

Other contributions have been restated to incorporate the application of contributions from the Plant and Vehicle Fund.

2012/13 £'000		2013/14 £'000
	Explanation of Movements in Year	
-	Increase in underlying need to borrow (supported by government financial assistance)	-
(2,861)	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)	709
(2,861)	**Increase in capital financing requirement**	**709**

Note 19 Termination Benefits

During 2013/14 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 40 employees, incurring liabilities of £1.063m - 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 final salary 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 1998, as amended and is contracted out of the State Second Pension. 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. This 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

We 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

Restated 2012/13 £'000	Comprehensive Income and Expenditure Statement	2013/14 £'000
	Cost of Services	
15,393	Current Service Costs	16,848
1,118	Past Service Costs, including curtailments	296
	Financing and Investment Income and Expenditure	
8,150	Net Interest Expense	8,389
24,661	**Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services**	**25,533**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(34,664)	Return on plan assets (excluding the amount included in the net interest expense)	(7,573)
-	Actuarial gains and losses arising on changes in demographic assumptions	15,159
31,181	Actuarial gains and losses arising on changes in financial assumptions	(12,569)
208	Other	(353)
(3,275)	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(5,336)**
	Movement in Reserves Statement	
19,768	Reversal of net charges made for retirement benefits in accordance with the Code	25,533
	Actual amount charged against the General Fund Balance for pensions in the year	
12,055	Employers' contributions payable to the scheme	11,609
1,454	Retirement benefits payable to pensioners	1,440

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:-

2012/13 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2013/14 £'000
600,623	Present value of the defined benefit obligation	631,848
(409,373)	Fair value of plan assets	(433,450)
191,250	Sub total	198,398
-	Other movements in the liability (asset)	-
191,250	**Net liability arising from defined benefit obligation**	**198,398**

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 £198.4m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall net liability of £25.9m.

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

Restated 2012/13 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2013/14 £'000
358,019	**Opening Fair Value of Scheme Assets**	409,373
16,474	Interest Income	17,986
	Remeasurement (gains) and losses:-	
34,926	Return on plan assets, excluding the amount included in the net interest expense	7,573
(262)	Other	(254)
13,509	Employer Contributions including unfunded pensions	13,049
3,883	Contributions by Scheme Participants	3,923
(17,176)	Estimated Benefits Paid	(18,200)
-	Receipt/(Payment) of bulk transfer value	-
409,373	**Closing Fair Value of Scheme Assets**	**433,450**

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

Restated 2013/13 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2013/14 £'000
541,393	**Opening Defined Benefit Obligation**	600,623
15,393	Current Service Cost	16,848
24,623	Interest Cost	26,121
3,883	Contributions by Scheme Participants	3,923
	Remeasurement (gains) and losses:-	
-	Actuarial (gains)/losses arising from changes in demographic assumptions	15,159
31,181	Actuarial (gains)/losses arising from changes in financial assumptions	(12,569)
208	Other	(353)
1,118	Past Service Cost	296
(15,722)	Benefits Paid	(16,760)
(1,454)	Unfunded Pension Payments	(1,440)
600,623	**Closing Defined Benefit Obligation**	**631,848**

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 2014.

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.

2012/13 £'000	Local Government Pension Scheme assets comprised:	2013/14 £'000
8,187	Cash and cash equivalents	**13,003**
	Equity Instruments	
	By industry type	
62,565	Consumer	52,748
20,393	Manufacturing	34,167
23,247	Energy and utilities	18,084
36,647	Financial Institutions	36,584
11,394	Health and Care	9,070
21,145	Information Technology	15,687
175,391		**166,340**
	Bonds	
	By sector	
32,750	UK Corporate	34,676
16,375	UK Government	13,003
49,125	Other	**47,679**
	Investment Funds - Quoted in Active Market	
57,416	Managed Fund - UK Equities Passive	55,734
63,971	Managed Fund - Global Equities	58,449
2,064	Managed Fund - Smaller Companies	1,220
16,375	Managed Fund - Property	17,338
139,826		**132,741**
	Investment Funds - Not Quoted	
36,844		**73,687**
409,373	**Total Assets**	**433,450**

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

2012/13 £'000	Fair Value of Scheme Assets	2013/14 £'000
	Equity instruments:	
	By company size	
175,391	Large capitalisation	**166,340**

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 2011.

The principal assumptions used by the actuary are shown below:

Restated 2012/13	Basis for Estimating Assets and Liabilities	2013/14
	Long-term expected rate of return on assets in the scheme	
6.0%	Equity investments	4.5%
4.0%	Gilts	3.0%
8.0%	Other bonds	8.0%
4.0%	Property	4.0%
2.0%	Cash	3.0%
9.0%	Single Net Interest Cost	17.0%
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
22.10	Men	22.50
24.40	Women	24.80
	- longevity at 65 for future pensioners (years)	
23.40	Men	24.70
25.90	Women	27.10
3.4%	Rate of inflation - RPI	3.6%
2.6%	Rate of inflation - CPI	2.8%
4.8%	Rate of increase in salaries	1.0%
2.6%	Rate of increase in pensions	2.8%
4.4%	Rate for discounting scheme liabilities	4.5%

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

2012/13		Category Analysis of the Scheme Assets as at 31 March 2014	2013/14	
%	£'000		%	£'000
73	298,842	Equities	65	281,743
4	16,375	Gilts	3	13,003
8	32,750	Other Bonds	8	34,676
4	16,375	Property	4	17,338
2	8,187	Cash	3	13,003
9	36,844	Multi-Asset Fund	17	73,687
100	**409,373**	**Total**	**100**	**433,450**

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
Longevity (increase or decrease in 1 year)	609,531	654,357
Rate of increase in salaries (increase or decrease by 1%)	637,832	625,961
Rate if increase in pensions (increase or decrease by 1%)	638,271	625,555
Rate for discounting scheme liabilities (increase or decrease by 1%)	619,876	644,063

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 2013/14 the Council paid £6.543m to teachers' pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£6.552m and 14.9% in 2012/13). 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 this Statement of 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 2013/14 these amounted to £0.787m representing 1.80% of pensionable pay (£0.792m and 1.80% in 2012/13).

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 13 employers in the Scottish Borders. As at 31 March 2014 there were 9,556 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

2012/13 £'000		2013/14 £'000
1163	**Balance outstanding at start of year**	**952**
4,174	Purchases	3,521
(4,430)	Recognised as an expense in the year	(3,569)
45	Written off balances	19
952	**Balance outstanding at year-end**	**923**

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	Municipal Mutual Insurance Ltd £'000	Asset Decommissioning £'000	Total £'000
Balance at 1 April 2013	**(38)**	**(300)**	**(164)**	**(250)**	**(108)**	**(54)**	**-**	**(914)**
Additional charges to provisions	(48)	-	(716)	(159)	-	-	(1,165)	**(2,088)**
Payments made or released	16	11	119	202	-	54	-	**402**
Balance at 31 March 2014	**(70)**	**(289)**	**(761)**	**(207)**	**(108)**	**-**	**(1,165)**	**(2,599)**
Within 12 Months	(70)	(289)	(761)	(207)	(108)	-	(1,165)	**(2,599)**
Over 12 months	-	-	-	-	-	-		**-**
Total	**(70)**	**(289)**	**(761)**	**(207)**	**(108)**	**-**	**(1,165)**	**(2,599)**

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- The Council agreed to provide a financial security to SEPA in 2012 (on behalf of New Earth Solutions – who are contracted on behalf of the Council) up to a limit of £315k for the Mechanical Biological Treatment Plant's Pollution Prevention Control Permit. The actual cost and timing of any contribution is not known and consequently no provision has been made in the financial statements in respect of this payment.

- 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. A levy of 15% (£47,697) was paid by the Council during 2013/14 in respect of its share of claim liabilities. This will remain the position until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required. As the final costs and timing of any further Council contributions cannot therefore be estimated with reasonable accuracy, no further provision has been made in the financial statements in respect of any potential additional payments at this stage. The remaining contingent liability at the Balance Sheet date in respect of claim payments to date, net of the initial levy paid, is £320,284, 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 £70,000 at the Balance Sheet date.

- A claim has been submitted against the Council in the Court of Session seeking additional payment in respect of a Waste Facility Contract. The Council is defending this claim. The information usually required by IAS37 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

- Currently the Local Authority Scotland Accounting Advisory Committee (LASAAC) is reviewing the accounting treatment for future decommissioning and restoration costs associated with landfill sites, in accordance with IAS 37. The Council operates and manages an active landfill site at Easter Langlee. At present the timing of these works and the costs involved relating to revenue expenditure are not fully known. However the Council is able to reliably estimate the capital costs to be incurred and has therefore created a provision (See note 25) to address this future expenditure. Work is currently on-going to further estimate the scale of the revenue works and the associated costs. Once these are known consideration will be given as to how to appropriately account for these revenue costs in light of emerging guidance from LASAAC. The Council, therefore, has determined that at this current time it is appropriate to have this element of the future decommissioning and restoration costs noted as a contingent liability in the accounts.

- There has been a recent 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.

Note 27 Contingent Assets

At 31 March 2014 the Council does not have any contingent assets.

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2013/14.

2012/13 £'000		2013/14 £'000
	Credited to Taxation and Non Specific Grant Income	
(9,408)	General Capital Grant	(10,169)
(2,861)	Borders Railway	(529)
(2,417)	Other Grants	(3,619)
(300)	Developer Contributions	(551)
(14,986)	**Total**	(14,868)
	Credited to Services	
(154)	Education & Lifelong Learning	(142)
(35,881)	General Fund Housing	(30,226)
(2)	Cultural & Related Services	(1)
(1,152)	Environment & Infastructure	(214)
(1,303)	Social Work	(1,585)
(1,188)	Central Services	(1,150)
(39,680)		(33,318)

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.

Financial Instruments - Balances

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

	Long-Term		Current	
	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
Loans and Receivables				
Short Term Investments	-	-	4,559	-
Cash and Cash Equivalents	-	-	5,893	13,692
Debtors	3,670	4,593	30,020	23,590
Total Loans and Receivables	3,670	4,593	40,472	37,282
Borrowings				
Financial Liabilities (principal amount)	(172,060)	(171,895)	(6,134)	(147)
Accrued interest	-	-	(3,240)	(3,243)
Total Borrowings	(172,060)	(171,895)	(9,374)	(3,390)
Other Liabilities				
PPP and finance lease liabilities	(57,901)	(55,873)	(2,074)	(2,197)
Bonds	(200)	-	(174)	(294)
Total other long-term liabilities	(58,101)	(55,873)	(2,248)	(2,491)
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(40,835)	(45,026)
Total Creditors	-	-	(40,835)	(45,026)

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 2013			31 March 2014	
£'000	%		£'000	%
(44,283)	25	Bonds and Mortgages	(44,263)	25
(127,632)	70	Public Works Loan Board	(127,632)	73
(145)	-	European Investment Bank	-	-
(172,060)	**95**	**Long term borrowing (> 1 year)**	**(171,895)**	**98**
(9,374)	5	Short Term Borrowing repayable within 12 months	(3,390)	2
(181,434)	**100**	**Total Borrowing**	**(175,285)**	**100**

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2013 £'000		2014 £'000
(9,374)	Less than 1 year	(3,390)
(148)	Between 1 and 2 years	(3)
(13)	Between 2 and 7 years	(1,791)
(16,684)	Between 7 and 15 years	(14,903)
(155,215)	More than 15 years	(155,198)
(181,434)	**Total**	**(175,285)**

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

	2013/14		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	11,908	-	11,908
Impairment Losses	-	112	112
Interest payable and similar charges	**11,908**	**112**	**12,020**
Interest Income	-	(159)	(159)
Gains on derecognition	-	(435)	(435)
Interest and investment income	**-**	**(594)**	**(594)**
Net (gain) / loss for the year	**11,908**	**(482)**	**11,426**

	2012/13		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	12,380	-	12,380
Impairment Losses	-	202	202
Interest payable and similar charges	**12,380**	**202**	**12,582**
Interest Income	-	(251)	(251)
Interest and investment income	**-**	**(251)**	**(251)**
Net (gain) / loss for the year	**12,380**	**(49)**	**12,331**

Notes to the Core Financial Statements

Fair value of Assets and Liabilities carried at Amortised Cost

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

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

The fair values calculated are as follows:

	31 March 2013		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(130,350)	(198,492)	(130,350)	(187,033)
Other debt	(49,825)	(62,430)	(43,690)	(52,866)
Total debt	**(180,175)**	**(260,922)**	**(174,040)**	**(239,899)**
Creditors	(43,083)	(43,083)	(47,517)	(47,517)
Total financial liabilities	**(223,258)**	**(304,005)**	**(221,557)**	**(287,416)**

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 2013		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and Receivables				
Short Term Investments	4,559	4,559	-	-
Cash and Cash Equivalents	5,893	5,893	13,692	13,692
Debtors	30,020	30,020	23,590	23,590
Total loans and receivables	**40,472**	**40,472**	**37,282**	**37,282**

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 2013/14 which incorporates the prudential indicators was approved by the Council on 7 February 2013. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £321.6m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £279.7m. 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 £279.7m and £97.9m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

Period	Minimum	Maximum
Under 12 months	0%	20%
1 to 2 years	0%	20%
2 to 5 years	0%	20%
5 to 10 years	0%	20%
Over 10 years	20%	100%

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. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website.

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 2013/14 was approved by the Council on 7 February 2013 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 2014 that this was likely to crystallise.

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

Liquidity Risk

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

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

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

Refinancing and Maturity Risk

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

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

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

The maturity analysis of financial liabilities is as follows, together with the maximum and minimum limits for fixed interest rates maturing in each period, as approved by the Council in the Treasury Management Strategy on 7 February 2013:

	Approved Minimum Limits £000	Approved Minimum Limits %	Approved Maximum Limits £000	Approved Maximum Limits %	Actual 31 March 2013 £000	Actual 31 March 2014 £000
Less than one year	-	-	55,940	20	9,374	3,390
Between one and two years	-	-	55,940	20	148	3
Between two and seven years	-	-	55,940	20	13	1,791
Between seven and fifteen years	-	-	55,940	20	16,684	14,903
More than fifteen years	55,940	20	279,700	100	155,215	155,198
Total					**181,434**	**175,285**

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.

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	(149)
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.

Icelandic Bank Defaults

In October 2008, the Icelandic bank Landsbanki collapsed and the UK subsidiaries of the bank Heritable went into administration. The Council had £10m deposited with these banks at that time. The position with respect to the recovery of these deposits is as follows:

Heritable Bank

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The Council has now received 94.8% of its original £5m deposit. No further dividends are expected and so the Council is no longer recognising an asset on the balance sheet in respect of this deposit.

Landsbanki

In February 2014 the Council sold its outstanding claim in respect of its deposit with Landsbanki. The Council received 94.37% of its original £5m deposit.

Notes to the Core Financial Statements

Debtor and Creditor Analysis

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

Debtors

2012/13 £'000		2013/14 £'000
3,876	Central government bodies	2,827
392	Other local authorities	364
1,597	NHS bodies	1,174
384	Public Corporations and Trading Funds	132
31,399	Bodies External to General Government	27,663
37,648		**32,160**

Creditors

2012/13 £'000		2013/14 £'000
(4,486)	Central government bodies	(7,342)
-	NHS Bodies	(557)
(1,847)	Public Corporations and Trading Funds	(1,670)
(36,750)	Bodies External to General Government	(37,949)
(43,083)		**(47,517)**

Notes to the Core Financial Statements

Note 31 Movement in Reserves

A summary of all reserves movements are shown below:

Corporate Finance

Year End 2013/14 - Details of Movements on Reserves

	Balance as at 31 March 2013 Restated £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2014 £'000
Usable Reserves				
General Fund Balances	(15,019)	(8,553)	6,436	(17,136)
Capital Fund	(6,800)	(123)	-	(6,923)
Property Maintenance Fund	(133)	(167)	-	(300)
Insurance Fund	(1,388)	27	-	(1,361)
Unusable Reserves				
Capital Adjustment Account	(84,883)	(6,885)	(2)	(91,771)
Financial Instruments Adjustment Account	5,806	(205)	-	5,601
Revaluation Reserve	(65,662)	2,658	(5,357)	(68,361)
Pensions Reserve	191,249	12,484	(5,335)	198,398
STACA Statutory Mitigation Acct	7,090	1,370	-	8,460
Icelandic Banks Statutory Adjustment Account	605	(605)	-	-
Total	**30,865**	**-**	**(4,258)**	**26,607**

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:

2012/13 Restated £'000	Analysis as at 31 March	2013/14 £'000
	Earmarked Reserves	
(1,348)	Education - Devolved School Management	(1,274)
	Specific Departmental Reserves	
(1,465)	Central Services	(2,728)
(409)	Education	(403)
(558)	Environment & Infastructure	(149)
(221)	Social Work	(966)
(563)	RSG Reduction (Police Reserves)	-
(4,564)		(5,520)
(10,455)	Non-earmarked Reserve	(11,616)
(15,019)	**Total General Fund Reserve**	**(17,136)**

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.

Icelandic Banks Statutory Adjustment Account

This account absorbs the anticipated loss of interest arising from deposits in the failed Icelandic Banks.

Notes to the Core Financial Statements

Note 32 Cash Flow

2012/13 Restated £'000	Reconciliation to General Fund Surplus	2013/14 £'000
76,255	**Net (Surplus) or deficit on the provision of services**	**6,436**
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(19,216)	Depreciation	(19,854)
(29,160)	Impairment & Revaluation Loss through I & E	(3,681)
(393)	Amortisation of intangible assets	(139)
(11,151)	Movement in pension liability	(12,484)
(44,361)	Gain/Loss on carrying amounts of assets disposed	785
(212)	Net movement in inventories charged to I & E	(30)
6,138	Net movement in debtors charged to I & E	(2,411)
8	Net movement in creditors charged to I & E	(2,760)
829	Net movement in provisions charged to I & E	(522)
(97,518)		**(41,096)**
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
14,986	Capital grants received	14,868
499	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(977)
15,485		**13,891**
(5,778)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(20,769)**

Notes to the Core Financial Statements

Note 33

Impairment Losses

During 2013/14 SBC recognised a net impairment loss of £8.291m (£34.660m in 2012/13). A net cost of £3.681m 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:

2012/13 £'000		2013/14 £'000
69	Cash held by officers	66
1,132	Bank current accounts	1,723
4,692	Short term deposits	11,903
5,893	**Total**	**13,692**

Supplementary Financial Statements

Council Tax Income Account

2012/13 £'000	2012/13 £'000			2013/14 £'000	2013/14 £'000
	(56,473)	Gross Charges Levied			(56,885)
5,945		Less:	Benefits	5,777	
(6,019)			Government Subsidy		
(74)				5,777	
4,981		Discounts		5,061	
642		Provision for bad debts		892	
-		Lump Sum Payment Discounts		-	
107		Miscellaneous		(86)	
	5,656				11,644
	(50,817)				**(45,241)**
	-	Community Charge collected			-
	(50,817)	**Total Income Credited to the Comprehensive Income & Expenditure Statement**			**(45,241)**

The decrease in income is due to the introduction of the Council Tax Reduction Scheme (CTRS). The responsibility for awarding Council Tax Benefit now lies with the Council rather than the Department of Work and Pensions (DWP). The Revenue Support Grant (RSG) that the Council receives from the Scottish Government has been increased to reflect this.

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2013

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2013/14 £
A	16,649	6/9	11,099	722.67
B	12,669	7/9	9,854	843.11
C	6,755	8/9	6,004	963.56
D	5,716	9/9	5,716	1,084.00
E	6,187	11/9	7,562	1,324.89
F	4,477	13/9	6,467	1,565.78
G	4,096	15/9	6,827	1,806.67
H	443	18/9	886	2,168.00
Total	**56,992**		**54,415**	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(12,813)	
Estimated net income from a Council Tax of £1 for 2013/14			**£41,602**	

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 2013/14 the Band D charges were £187.20 for water and £217.26 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

2012/13 £'000	2012/13 £'000			2013/14 £'000	2013/14 £'000
	(35,728)	Gross Rates Levied & Contribution in Lieu			(37,557)
7,518		Less:	Reliefs and Other Deductions	7,612	
395			Write-offs of uncollectable debts & allowance for impairment	419	
-	7,913		Interest paid on overpaid rates	-	8,031
	(27,815)				(29,526)
	(94)	Net General Fund expenditure on discretionary reliefs			(112)
	(27,909)	**Net Non-Domestic Rate Income**			**(29,638)**
	(19)	Adjustment to Previous Years National Non-Domestic Rates			76
	(27,928)	**Contribution to National Pool**			**(29,562)**
	26,489	**Distribution received from National Pool**			28,503
	(26,489)	**Income Credited to the Comprehensive Income & Expenditure Statement**			**(28,503)**

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2014

Classification	Number	Rateable Value £'000
Shops	1,248	20,029
Public Houses	92	1,340
Offices including Banks	877	7,531
Hotels, Boarding Houses, etc	136	3,284
Industrial and Freight transport	1,752	22,688
Leisure, Entertainment, Caravan sites, etc	952	5,013
Garages and Petrol Stations	222	1,794
Cultural and Sporting	135	790
Education and Training	104	9,424
Public Service	434	4,568
Communications	7	17
Quarries, Mines, etc	12	331
Petrochemical	5	1,395
Religious	296	1,236
Health and Medical	99	3,869
Care Facilities	100	1,948
Other	570	1,893
Advertising	7	11
Undertakings	20	3,407
Total	**7,068**	**90,568**

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2013/14 was:
46.2p for properties with a rateable value up to £35,000
47.1p for properties with a rateable value above £35,000

Trust Funds

The Council is trustee for 289 trusts and endowments. 76 of these funds were registered as a single charity by the Office of the Scottish Charity Regulator (OSCR) in late 2012/13, in addition to the 36 existing registered funds. The Comprehensive Income and Expenditure Account and Balance Sheet below show separately both those registered with OSCR and those that are not. Those funds registered individually with OSCR have had reorganisation applications lodged with OSCR and do not require audit this year. The single holding charity containing 76 funds is now subject to audit inline with OSCR requirements and a full financial statement compliant with those requirements is published separately.

The accounting policies applied are those detailed in pages 32 to 43.

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

2012/13 £'000		Charitable £'000	Other £'000	2013/14 Total £'000
	Income			
(39)	Dividends and Interest	(27)	(20)	(47)
(37)	Rents	-	(45)	(45)
(10)	Donations & Grants	-	(4)	(4)
	Expenditure			
15	Administration	-	12	12
22	Grants to Beneficiaries	14	8	22
56	Depreciation	17	49	66
7	**(Surplus) / Deficit for the Year**	**4**	**-**	**4**
(732)	(Surplus) brought forward	(408)	(366)	(774)
(56)	Funding (brought forward/carried forward) to Revaluation Reserve	(16)	(50)	(66)
7	Transfer to Capital Reserve	-	7	7
(774)	(Surplus) carry forward	**(420)**	**(409)**	**(829)**

Trust Funds

Balance Sheet

2012/13 £'000		Charitable £'000	Other £'000	2013/14 Total £'000
	Non-current Assets			
1,480	Land and Buildings	190	251	441
27	Investments	786	1,108	1,894
4	Long term Loan	-	4	4
	Current Assets			
1,144	Capital Advances to the Loans Fund	51	(49)	2
784	Revenue Advances to the Loans Fund	(98)	259	161
7	Sundry Debtors	-	-	-
	Current Liabilities			
(14)	Sundry Creditors	-	(11)	(11)
3,432	**Net Assets**	**929**	**1,562**	**2,491**
	Financed by			
(774)	Revenue Reserve	(420)	(409)	(829)
(1,247)	Capital Reserve	(371)	(919)	(1,290)
(1,411)	Revaluation Reserve	(138)	(234)	(372)
(3,432)		**(929)**	**(1,562)**	**(2,491)**

David Robertson CPFA
Chief Financial Officer
23 September 2014

Common Good Funds

The Council administers the Common Good Funds for eight towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2014, for each of the funds. The accounting policies applied are those as set out in pages 32 to 43.

The funds for Hawick, Jedburgh and Kelso had investments under an external fund manager which were realised during the year and all funds have revenue balances invested in the Council's Loans Fund. During the year the single investment strategy was implemented with maximum balances transferred from Council Loans Fund to 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 2012/13 £'000		2013/14 Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income									
(478)	Fees and Charges	-	-	(96)	-	-	(12)	(57)	(71)	(236)
(46)	Investment Income	-	-	(9)	(29)	(6)	(3)	(6)	(2)	(55)
(25)	Grant Income	(1)	(1)	(6)	(1)	(1)	(6)	(3)	(4)	(23)
(549)		**(1)**	**(1)**	**(111)**	**(30)**	**(7)**	**(21)**	**(66)**	**(77)**	**(314)**
	Expenditure									
292	Property Costs	1	-	108	-	-	4	26	16	155
166	Depreciation	2	-	36	10	29	9	22	63	171
55	Administrative Costs	2	2	11	4	2	10	8	17	56
134	Donations and Contributions	-	-	12	10	2	106	5	19	154
647		**5**	**2**	**167**	**24**	**33**	**129**	**61**	**115**	**536**
98	**(Surplus) / Deficit**	**4**	**1**	**56**	**(6)**	**26**	**108**	**(5)**	**38**	**222**
(955)	(Surplus) / Deficit brought forward	(24)	(26)	(100)	(141)	(83)	(235)	(55)	(129)	(793)
(166)	Funding (from)/to Revaluation Reserve	(2)	-	(36)	(10)	(29)	(9)	(22)	(63)	(171)
230	Transfer (from)/to Capital Reserve	-	-	-	-	60	103	-	-	163
(793)	**(Surplus)/Deficit carried forward**	**(22)**	**(25)**	**(80)**	**(157)**	**(26)**	**(33)**	**(82)**	**(154)**	**(579)**

Common Good Funds

Balance Sheets

Total 2012/13 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2013/14								
	Non-current Assets									
7,222	Land & Buildings	4	-	2,529	414	650	691	676	2,103	7,067
4	Heritage Assets	-	-	3	-	19	-	-	1	23
2	Other Fixed Assets	-	-	-	-	-	-	2	-	2
1,039	**Investments**	-	-	364	874	250	199	357	133	2,177
36	**Long Term Loan to Third Party**	-	-	-	81	-	21	-	-	102
	Current Assets									
83	Sundry Debtors	-	-	1	2	-	-	-	-	3
752	Capital Advances to Loans Fund	-	-	-	-	-	-	-	-	-
770	Revenue Advances to Loans Fund	22	23	159	59	34	9	87	86	479
-	Inventories	-	-	-	-	-	-	-	-	-
	Current Liabilities									
(69)	Sundry Creditors	-	2	(65)	-	-	6	(40)	(23)	(120)
9,839	**Net Assets**	**26**	**25**	**2,991**	**1,430**	**953**	**926**	**1,082**	**2,300**	**9,733**
	Financed by									
(793)	Revenue Reserve	(22)	(25)	(80)	(157)	(26)	(33)	(82)	(154)	(579)
(2,009)	Capital Reserve	-	-	(515)	(861)	(258)	(204)	(373)	(51)	(2,262)
(7,037)	Revaluation Reserve	(4)	-	(2,396)	(412)	(669)	(689)	(627)	(2,095)	(6,892)
(9,839)	**Total Reserves**	**(26)**	**(25)**	**(2,991)**	**(1,430)**	**(953)**	**(926)**	**(1,082)**	**(2,300)**	**(9,733)**

David Robertson CPFA
Chief Financial Officer
23 September 2014

Notes to Common Good Funds

Capital Reserves

During the year there were a number of movements on the capital reserves which are shown below. The movements are the result of the realisation of gains on the sale of investments and recognition of unrealised gains through the valuations of the investments.

Total 2012/13 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2013/14								
(1,691)	Balance at 1 April 2013	-	-	(501)	(808)	(188)	(97)	(366)	(49)	(2,009)
(16)	Realised (Gains)/Losses on Investments	-	-	(75)	(368)	(50)	-	-	-	(493)
-	Prior year (Gains)/Losses on Investments adjustment	-	-	66	323	44	-	-	-	433
(72)	Unrealised Gains on Investments	-	-	(5)	(8)	(4)	(4)	(7)	(2)	(30)
(230)	Transfer from Revenue Reserve	-	-	-	-	(60)	(103)	-	-	(163)
(2,009)	Balance at 31 March 2014	**-**	**-**	(515)	(861)	(258)	(204)	(373)	(51)	**(2,262)**

Heritage Assets

This is the third year in which Heritage Assets have been recognised on the Balance Sheet and the movement on each of the funds is shown in the following table. There was a donation made to Kelso Common Good which is brought in at insurance valuation and these figures form the first three years for the future reporting of five year asset transactions.

	Hawick £'000	Kelso £'000	Selkirk £'000	Total £'000
Cost or Valuation at 31 March 2011	-	-	-	-
Additions	3	-	1	4
Cost or Valuation at 31 March 2012	3	-	1	4
Cost or Valuation at 31 March 2013	**3**	**-**	**1**	**4**
Additions	**-**	19	**-**	**19**
Cost or Valuation at 31 March 2014	**3**	**19**	**1**	**23**

There were no disposals or revaluations of Heritage Assets in the last three years.

The inventories of Heritage Assets held by each Common Good Fund for former Burghs in the Borders are published annually as part of the financial reporting and monitoring to the public meetings of the Common Good Working Groups of Councillors.

Significant items include regalia and robes of office from the former Burghs and are made available for loan to Honorary Provosts and Chairpersons of Community Councils in the former Burghs for official occasions and to the Museum Service for public display.

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 3 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.

Icelandic Banks Statutory Adjustment Account: This account absorbs the anticipated loss of interest arising from deposits in the failed Icelandic Banks.

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, STACA Statutory Mitigation Account and Icelandic Bank Statutory Adjustment Account.

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

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

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

Trust Funds: The Council administers 290 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 37 of which have charitable status and are 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 Opinion

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

We have audited the financial statements of Scottish Borders Council for the year ended 31 March 2014 set out on pages 1 to 87. 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 2013-14 (the 2013-14 Code).

This report is made solely to the members of Scottish Borders Council and the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scottish Borders Council and the Accounts Commission for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 12, the Chief Financial Officer is responsible for the preparation of 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 body’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword by the Chief Financial Officer to identify material misstatements or 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 of the state of the body’s affairs as at 31 March 2014 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the Code of Practice on Local authority Accounting in the United Kingdom 2013-14; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other matters prescribed by the Local Government (Scotland) Act 1973

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 1985; and
- The information given in the Explanatory Foreword by the Chief Financial Officer 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 have nothing to report in respect of the following matters where the Local Government (Scotland) Act 1973 requires us 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 does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to meet a prescribed financial objective.

David Watt
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

25 September 2014