SCOTTISH BORDERS COUNCIL

STATEMENT OF ACCOUNTS

2011/12

Scottish Borders Council

Statement of Accounts 2011/12

Explanatory Foreword by the Chief Financial Officer

Introduction

Welcome to Scottish Borders Council accounts for the financial year ended 31 March 2012.

The Council is required by law to publish a Statement of Accounts that comply with applicable codes of practice. These statements 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 2011/12 (the Code).

The purpose of this document is to demonstrate the Council's proper stewardship and accountability for the management of the public funds with which it is entrusted. The accounts are complicated, technical documents and I have sought within my foreword to highlight the most significant matters which have arisen during the year within the Council and its wider group. It is my intention within this foreword to explain these issues in as straight forward a manner as possible, hopefully allowing the reader to reach an informed judgement on the council's financial position at 31 March 2012 and the quality of Financial management within SBC.

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, Heritage Assets held by the Authority have been recognised for the first time, this has resulted in £971k worth of assets now appearing on the Balance Sheet.

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

The main statements contained within these accounts are as follows:

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

- **Annual Statement on Governance and Internal Control** - 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.

- **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the Council. The surplus or deficit of 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 2011/12 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 2012 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council and are categorised as "usable reserves" i.e. those that can be used to fund services or reduce local taxation, subject to the need to maintain a prudent level of reserves, or any statutory restrictions limit on their use for example the capital fund, which may only be used to fund capital expenditure or to repay external debt and other "unusable reserves" which cannot be used to fund council services.

- **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 arising from transactions with third parties has affected the opening and closing financial position.

Explanatory Foreword by the Chief Financial Officer

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 Account and the Common Good and Trust Funds under the stewardship of the Council.

The Council's Financial Position for 2011/12

The budget for 2011/12 was approved by the Council in February 2011 and planned net expenditure totalled £266.8m. Revenue Support Grant and our share of the Non-Domestic Rates Pool from the Scottish Government totalled £214.4m (80.3% of total funding). The Council budgeted to raise £50m (18.7%) of its funding through the Council Tax product and a 'Band D' Council Tax of £1,084 was levied maintaining the rate first agreed in 2007/08 for the fourth successive year. The Council Tax for Scottish Borders continued to be among the lowest in mainland Scotland in 2011/12 and our in-year council tax collection rate was 96.45%.

The original budget was supplemented by a sum of £2.5m (1%) which was carried forward from 2010/11 to increase revenue resources in year. 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 virements approved. There was no requirement to create any significant provisions or contingencies nor were there any material write-offs during the year. Consequently, the final budget for the year was £266.3m. The actual outturn for the year against departmental budgets was an underspend of £0.28m.

Revenue Outturn 2011/12

Once accounting adjustments, required under the code have been made, a surplus of £15.084m on the Provision of Services was recorded. These accounting adjustments include, depreciation, net retirement benefits, loans fund principal repayments and accrued holiday leave not taken by the 31st March 2012 and adjusted the net cost of services to £258.3m. Page 37 shows the movement between this and the actual outturn figure.

The 2011/12 Local Government Finance Settlement, the Council tax raised, and the Council's budget process provided resources required to fund the Council's net service expenditure in 2011/12. The future outlook for the Councils finances with likely reductions in funding from central government and a desire to limit the burden of taxation is very challenging. Despite these difficult economic conditions it is however expected that future settlements, aligned with the Council's budget process, and a robust policy on reserves, will provide sufficient resources to finance future liabilities and meet these challenges successfully.

General Fund Reserve

The Council maintains a General Fund Reserve 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.

The analysis of the General Fund Reserve at 31 March 2012 is as follows:

2011 £'000		2012 £'000
	Earmarked Reserves	
(1,198)	Devolved School Management	(1,253)
(3,409)	Specific Departmental Reserves	(3,778)
(4,607)		(5,031)
(6,868)	Non Earmarked Reserve	(7,429)
(11,475)	Total General Fund Reserve	**(12,460)**

The net increase in the General Fund Reserve is £0.985m.

Explanatory Foreword by the Chief Financial Officer

The Council's Financial Strategy for 2011/12 identified the optimum level of non earmarked reserves considered necessary to provide a working balance and a contingency to cushion the impact of unexpected events or emergencies (i.e. not earmarked for specific purposes) as falling within 2% - 4% of net revenue expenditure (between £5.3m and £10.7m at 2011/12 levels). The Reserve not earmarked for specific purposes at £7.4m (2.77%) is within that range and showed a net increase of £0.561m (8.2%) on the 2010/11 total. The general fund balance also includes £5.0m of earmarked reserves for specific purposes which will be spent either in 2012/13 or future financial years.

Significant Trading Operation

SBc Contracts has a statutory obligation to at least break even over rolling three-year period. During 2011/12 a net deficit of £0.025m was recorded. Over the three-year period the cumulative surplus delivered by SBc Contracts totalled £0.373m.

Capital Expenditure and Debt Outstanding

In 2011/12 the Council incurred capital expenditure totalling £31.2m, including £3.65m on the new Clovenfords Primary School. An analysis of capital investment, sources of finance and the capital financing requirement can be found on pages 48-49. A feature of the capital programme in 2011/12 was a significantly reduced level of slippage when compared to previous years. It is for the Council to set its own capital investment limits, ensuring that under the Prudential Code they are prudent, affordable and sustainable. Outstanding advances from the Loans Fund to finance capital expenditure totalled £195.9m at 31 March 2012 (£198.7m at 31 March 2011). The average rate of interest paid on outstanding debt was 5.4% (2010:11: 5.6%). There was no temporary borrowing at the end of the financial year.

Short Term Deposits

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £10m deposited (£5m with Heritable Bank and £5m with Landsbanki), with varying maturity dates and interest rates. During 2011/12 £0.868m repayments were received from Heritable Bank, which, when added to receipts of £2.527m in previous years, gives a total of £3.395m (67.9% of the claim of £5m). In addition, during 2011/12 payments totaling £1.5m were received from Landsbanki (30% of the claim of £5m). The Council has accounted for a cash loss of £0.807m from Icelandic deposits, shown on the Balance Sheet as Icelandic Banks Statutory Adjustment Account, and has funded these losses via the Scottish Government's consent to borrow scheme.

Group Accounts

The revised guidance on Council subsidiaries, associates and joint ventures means that the Council only considers that the Lothian & Borders Police and Fire & Rescue Boards, Borders Sport and Leisure Trust and Jedburgh Leisure Trust merit inclusion in the Group Accounts, as well as the Common Good and Trust Funds administered by the Council. The Group Accounts are shown on pages 77 to 87**.**

Council and Group Balance Sheets

The net assets of Scottish Borders Council total £26.2m as at 31 March 2012 (2010/11 net assets £108m). Subsequent to the incorporation of subsidiaries and associates, the Group Balance Sheet shows net liabilities of £237.9m as at 31 March 2012 (restated net liabilities of £115.1m in 2010/11). This mainly reflects the inclusion of pension liabilities relating to council officers and other employees and the incorporation of Joint Boards as associates within the group. These liabilities, falling due in future years, will be financed by increased annual pension contributions. In common with similar public bodies, future revenue streams will meet the financing of these liabilities. It is therefore considered appropriate to adopt a "going concern" basis for the preparation of these financial statements.

Explanatory Foreword by the Chief Financial Officer

Thanks

I assumed overall responsibility for the Council's Finances on the 19 September 2011. The post of Chief Financial Officer was vacant during the financial year until that date with appropriate interim cover arrangements. In this my first year as Section 95 Officer I am particularly grateful for all the assistance and advice I have received from Elected Members, the Council Management Team and colleagues since joining SBC. My special thanks are due to all staff, especially those in Corporate Finance and Financial Services, for their hard work and commitment during the year.

David Robertson CPFA
Chief Financial Officer
24 September 2012

Statement of Responsibilities for the Statement of Accounts

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 local authority 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 2012, and its income and expenditure for the year ended 31 March 2012.

David Robertson CPFA
Chief Financial Officer
24 September 2012

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, 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. Scottish Borders Council's financial management arrangement also conforms to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). 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 2012. The statement also covers relevant governance issues as they affect those entities included as part of the Council's Group Accounts.

The Governance Framework

The Council's Local Code of Corporate Governance provides the framework against which compliance is measured. This Code sets out the key principles required to demonstrate effective governance.

The key elements of the council's governance arrangements as set out in the local code include:

- 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 Priorities and the Single Outcome Agreement which are approved by Council and published on the Council's website.

- The Council reports publicly on its performance and the performance management arrangements enable progress to be monitored against the Council's Priorities, Single Outcome Agreement, and associated Service/Business Plans and Financial Plans.

- 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.

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

- 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 medium term financial planning, setting targets to measure financial performance, and regular reviews of periodic and annual financial reports which indicate financial performance against budgets.

- 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 by implementing this initiative within the financial plans, and monitors their achievement.

- The Council fosters relationships and partnerships with other public, private and voluntary organisations in delivering services that meet the needs of the local community.

- 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.

- 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.

- The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

- The Chief Financial Officer (the Section 95 officer) is responsible for ensuring appropriate advice is given to the Council on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control under the terms of the financial regulations.

- The Head of Legal and Democratic Services (the monitoring officer) is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. In line with the Council's Monitoring Officer Protocol, an annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

- The Head of Audit & Risk (HAR) reports to the Chief Executive and the Audit Committee and meets regularly with the Chief Financial Officer and Monitoring Officer. The HAR 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.

- The scheme of members' remuneration sets out the terms of remuneration of elected members. Details of all members' allowances and expenses are published on an annual basis.

- The Council has a risk management strategy, the main priorities of which are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to deliver services to the public.

- 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 and which are subject to regular review and testing as part of a quality accredited Business Continuity Management System.

- Elected members have personal development plans which are periodically supplemented by additional training. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

- 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.

- 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.

Annual Governance Statement

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 led self-evaluation working group on corporate governance which undertakes an annual self assessment against the 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 Head of 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 2011/12 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) Revision of the Community Planning structure and arrangements with its partners to provide the corporate business planning required by the Council as a whole, including the development of a Corporate Plan and associated priorities.

(c) Development of organisational values included in the Corporate Plan and shared with partners and stakeholders.

(d) In light of the local elections and significant challenges in addressing cost pressures and the reduction in government funding: (i) reviewing Council Priorities and ensuring that the organisation's activities align to the priorities of the Administration, and (ii) ensuring that the programme of change and transformation delivers efficient and effective services to citizens, whilst maintaining a robust control environment.

(e) Refinement of the performance management framework to ensure it is linked to the Single Outcome Agreement and Council Priorities, reflects performance measurement accurately and effectively, and enables publication of a Corporate Performance Report.

(f) Full implementation of an appropriate self-assessment process as a self-evaluation tool to demonstrate achievement of Best Value, including a review of the scrutiny function and self assessment of Committees' effectiveness.

(g) Further development of the new proactive approach to medium term Financial Planning to deal with expected funding pressures, full documentation of the processes, and provision of financial training to managers and budget holders.

(h) Review and clarification of the legal status of partnerships, ensuring the framework and principles of good corporate governance are in place within joint working and partnerships and further improvement through the implementation of the Best Practice Partnership toolkit across the Council.

(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) Focus on 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) Building on the foundation provided by the introduction of a consistent approach to staff performance appraisal and development (PRD) and other people management arrangements, develop a workforce planning and succession planning strategy.

These actions to enhance our governance arrangements in 2012/13 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
Chief Executive
24 September 2012

Councillor David Parker
Leader of the Council
24 September 2012

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12, 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.

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 fixed 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 amortisations. 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.

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. 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 Receipts Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Receipts Reserve 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.

Exceptional Items, Extraordinary Items and Prior Year Adjustments

- Any **exceptional** item will be included in the cost of service or on the face of the Comprehensive Income and Expenditure Statement, together with relevant notes, dependent upon the most appropriate way of presenting a true and fair view of the accounts.
- Any **extraordinary** item will be disclosed on the face of the Comprehensive Income and Expenditure Statement, with appropriate notes, after dealing with all items within the ordinary activities of the Council.
- **Prior year adjustments** arising from changes in accounting policy or the correction of fundamental errors will result in the restatement of the comparative figures for the previous year.

Events After the Reporting Period

Events after the reporting period 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 is 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.

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.

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 yields benefits to the Council and the services that it provides for more than one financial year. 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.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. 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 where there have been material changes in the value, 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 impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulative gains).

- Where there is no balance in the Revaluation Reserve, or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

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

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

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

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed 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

Accounting Policies

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.

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.

Council as lessee:

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Lease payments are apportioned between:

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

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

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

Council as lessor:

Amounts due from the lessee under a finance lease are recorded in the Balance Sheet of the Council as a debtor at the amount of the net investment. The total gross earnings under a finance lease are allocated to periods to give a constant periodic rate of return to the Council's net cash investment in the lease in each period.

Operating Leases

Council as lessee:

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Council as lessor:

Assets held by the Council for use under operating leases are recorded as Property, Plant and Equipment and depreciated over their useful life. Rental income from an operating lease is recognised on a straight line basis over the period of the lease.

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.

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 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.

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.

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 an officer's employment before the normal retirement date or an officer's decision to accept voluntary severence. They are charged on an accruals basis 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 of an officer or group of officers or making an offer to encourage voluntary redundancy.

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.

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 scheme 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 4.6% (based on the indicative rate of return on high quality corporate bond (iBoxx AA rated corporate bond index)).

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 seven components:

- 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 revenue accounts of services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services on the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.
- 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 - debited to the Pensions Reserve.
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Accounting Policies

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 in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations 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 any amounts payable to the fund but unpaid at the year-end.

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.

Accounting for 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.

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 payment.

Loans and receivables are initially measured at fair value and carried 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.

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, based on the best estimate of the likely settlement. 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 is recognised in the accounts where the Council has a possible obligation, but cannot be judged as probable enough to warrant a provision. 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.

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.

Accounting Policies

Valuation of Inventories

Inventories are valued at the lower of cost or net realisable value.

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 2011/12 (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.

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.

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 its introductory phase which will last until 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.

VAT

The Council is able to reclaim VAT from Her Majesty's Revenue and Customs under certain conditions. The Comprehensive Income and Expenditure Statement only includes amounts related to VAT which are not recoverable.

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**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 01/04/2010	(10,128)	(3,669)	(49)	(1,568)	**(15,414)**	(32,459)	**(47,873)**
Movement in reserves during 2010/11							
(Surplus)/deficit on provision of services	(23,096)	-	-	-	**(23,096)**	-	**(23,096)**
Other Comprehensive Income & Expenditure	-	-	-	-	**-**	(38,290)	**(38,290)**
Total Comprehensive Income & Expenditure	(23,096)	-	-	-	**(23,096)**	(38,290)	**(61,386)**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation & amortisation of non-current assets	(20,236)	-	-	-	**(20,236)**	20,236	-
Impairment/revaluation losses (charged to CI&ES)	(14,282)	-	-	-	**(14,282)**	14,282	
Revaluation Gains/Losses	(574)	-	-	-	**(574)**	574	
Capital grants and contributions applied	11,202	-	-	-	**11,202**	(11,202)	-
Employee - Statutory Adjustments	(729)	-	-	-	**(729)**	729	-
Profit/(loss) on sale of non current assets	(14)	(5,108)	-	-	**(5,122)**	5,122	-
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	536	-	-	-	**536**	(536)	-
Net retirement benefits per IAS 19	16,717	-	-	-	**16,717**	(16,717)	-
Loans Fund principal repayments and Statutory premia	8,493	**-**	**-**	**-**	**8,493**	(8,493)	-
Statutory Provision relating to PPP	3,185	**-**	**-**	**-**	**3,185**	(3,185)	**-**
Capital Expenditure charged to General Fund balance	21	**-**	**-**	**-**	**21**	(21)	-
Employers contribution payable to Pension Fund	15,391	**-**	**-**	**-**	**15,391**	(15,391)	
Net Transfers to or from other reserves	2,039	2,707	(126)	61	**4,681**	(3,389)	1,292
Increase/Decrease in 2010/11	**(1,347)**	**(2,401)**	**(126)**	**61**	**(3,813)**	**(56,281)**	**(60,094)**
Balance at 31/03/2011	**(11,475)**	**(6,070)**	**(175)**	**(1,507)**	**(19,227)**	**(88,740)**	**(107,967)**

Movement in Reserves Statement

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 01/04/2011	(11,475)	(6,070)	(175)	(1,507)	**(19,227)**	(88,740)	**(107,967)**
Movement in reserves during 2011/12							
(Surplus)/deficit on provision of services	(15,084)	-	-	-	**(15,084)**	-	**(15,084)**
Other Comprehensive Income & Expenditure	-	-	-	-	-	97,786	**97,786**
Total Comprehensive Income & Expenditure	(15,084)	-	-	-	**(15,084)**	97,786	**82,702**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation & amortisation of non-current assets	(19,453)	-	-	-	**(19,453)**	19,453	**-**
Impairment losses (charged to CI&ES)	(1,342)	-	-	-	**(1,342)**	1,342	**-**
Revaluation Losses	(108)	-	-	-	**(108)**	108	**-**
Capital grants and contributions applied	20,239	-	-	-	**20,239**	(20,239)	**-**
Icelandic Banks Stautory Adjustment	283	-	-	-	**283**	(283)	**-**
Icelandic Loss Adustment	416	-	-	-	**416**	(416)	**-**
Employee Statutory Adjustments	1,200	-	-	-	**1,200**	(1,200)	**-**
Profit/(Loss) on sale of non current assets	(925)	(427)	-	-	**(1,352)**	1,352	**-**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	204	-	-	-	**204**	(204)	**-**
Net retirement charges per IAS 19	(14,099)	-	-	-	**(14,099)**	14,099	**-**
Loans Fund principal repayments and Statutory premia	12,173	-	-	-	**12,173**	(12,173)	**-**
Capital Expenditure charged to General Fund balance	253	-	-	-	**253**	(253)	**-**
Employers contribution payable to Pension Fund	13,327	-	-	-	**13,327**	(13,327)	**-**
Net Transfers to or from other reserves	1,931	864	147	109	**3,051**	(3,986)	**(935)**
Increase/Decrease in 2011/12	**(985)**	**437**	**147**	**109**	**(292)**	**82,059**	**81,767**
Balance at 31/3/2012	**(12,460)**	**(5,633)**	**(28)**	**(1,398)**	**(19,519)**	**(6,681)**	**(26,200)**

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.

2010/11				2011/12			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
108,397	(4,717)	103,680	Education	106,770	(4,067)	102,703	
20,163	(16,711)	3,452	General Fund Housing Services	32,710	(29,127)	3,583	
15,594	(1,395)	14,199	Cultural & Related Services	16,521	(1,266)	15,255	
28,233	(2,407)	25,826	Environmental Services	19,384	(2,567)	16,817	
23,751	(4,766)	18,985	Roads & Transport Services	20,091	(3,980)	16,111	
6,209	(2,747)	3,462	Planning & Development Services	6,906	(2,969)	3,937	
90,105	(16,219)	73,886	Social Work	89,765	(15,695)	74,070	
23,088	(12,301)	10,787	Central Services	10,182	(3,236)	6,946	
			Corporate and Democratic Core				
(27,977)	-	(27,977)	Non-Distributed Costs	2,249	-	2,249	7
1,815	-	1,815	Exceptional Items	-	-	-	
289,378	**(61,263)**	**228,115**	**Services provided by the Council**	**304,578**	**(62,907)**	**241,671**	
10,248	-	10,248	Lothian & Borders Police Board	9,401	-	9,401	
7,300	-	7,300	Lothian & Borders Fire Board	7,189	-	7,189	
306,926	**(61,263)**	**245,663**	**Net Cost of Services**	**321,168**	**(62,907)**	**258,261**	
		(177)	Roads Trading Operation (Surplus)/Deficit (External)			(98)	8
			Other Operating Expenditure				
		14	(Gain)/Loss on Disposal of Assets			925	
			Financing & Investment Income and Expenditure				
		12,084	Interest Payable & Similar Charges			12,226	29
		(376)	Interest Receivable & Similar Income			(330)	29
		25,842	Pensions Interest Costs			24,686	20
		(22,790)	Expected Return on Pension Assets			(24,422)	
			Taxation and Non-Specific Grant Income				
		(177,031)	Revenue Support Grant			(191,485)	
		(44,989)	Non-Domestic Rates Pool for Scotland			(23,948)	
		(50,134)	Council Tax			(50,660)	
		(11,202)	Capital Grants and Contributions			(20,239)	28
		(23,096)	**(Surplus)/Deficit on Provision of Services**			**(15,084)**	

Comprehensive Income and Expenditure Statement

2010/11				2011/12			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
		(23,096)	**(Surplus)/Deficit on Provision of Services**			**(15,084)**	
		1,864	(Surplus)/Deficit on revaluation of Property, Plant and Equipment			(2,837)	
		(40,154)	Actuarial (gains)/losses on pension assets/liabilities			100,623	
		(38,290)	**Other Comprehensive Income and Expenditure**			97,786	
		(61,386)	**Total Comprehensive Income and Expenditure**			**82,702**	

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date 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'.

2010/11 £'000		2011/12 £'000	Notes
	Property Plant and Equipment		
302,660	Other Land and Buildings	299,954	12
16,978	Vehicle, Plant, Furniture & Equipment	17,029	12
74,306	Infrastructure	75,110	12
5,005	Surplus Assets	5,870	12
50,382	Assets Under Construction	63,120	12
-	Heritage Assets	971	13
614	Intangible Assets	593	14
-	Assets Held for Sale	-	15
399	Long Term Debtors	1,010	29
450,344	**Long Term Assets**	**463,657**	
5,524	Short Term Investments	3,838	
807	Inventories	1,163	24
32,418	Short Term Debtors	33,306	30
(6,892)	less Bad Debt Provision	(7,532)	
10,757	Cash and Cash Equivalents	5,635	34
42,614	**Current Assets**	**36,410**	
(6,281)	Short Term Borrowing	(3,390)	29
(58,282)	Short Term Creditors	(46,062)	29
(2,413)	Provisions	(1,742)	25
(66,976)	**Current Liabilities**	**(51,194)**	
(164,852)	Long Term Borrowing	(172,216)	29
(61,894)	Deferred Liabilities	(59,778)	
(523)	Finance Leases/Bonds	(349)	
(3,306)	Due to Trust Funds and Common Good	(3,374)	
(421,281)	Pension Liability	(541,393)	20
339,303	Pension Asset	358,020	20
(5,462)	Capital Grants Receipts in Advance	(3,583)	
(318,015)	**Long Term Liabilities**	**(422,673)**	
107,967	**Net Assets**	**26,200**	

Balance Sheet

2010/11 £'000	Financed By	2011/12 £'000	Notes
	Useable Reserves		
(6,070)	Capital Fund	(5,633)	31
(11,475)	General Fund Balance	(12,460)	31
(175)	Property Maintenance Fund	(28)	31
(1,507)	Insurance Fund	(1,398)	31
	Unusable Reserves		
(138,129)	Capital Adjustment Account	(154,697)	31
6,507	Financial Instruments Adjustment Account	6,275	31
(48,924)	Revaluation Reserve	(50,005)	31
81,978	Pension Reserve	183,373	31
8,766	STACA Statutory Mitigation Account	7,566	31
1,062	Icelandic Banks Statutory Adjustment Account	807	31
(107,967)		**(26,200)**	

The unaudited accounts were issued on 30 June 2012 and the audited accounts were authorised for issue on 30 September 2012.

David Robertson CPFA
Chief Financial Officer
24 September 2012

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.

2010/11 £'000		2011/12 £'000		Notes
(23,096)	**Net (Surplus) or deficit on the provision of services**	**(15,084)**		
4,133	Adjustments to net surplus or deficit on the provision of services for non cash movements	14,554		**32**
(14,009)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(21,860)		**32**
(32,972)	**Net Cash Flows From Operating Activities**		**(22,390)**	
	Investing Activities			
28,044	Purchase of PP&E, investment property and intangible assets	34,343		
(5,123)	Proceeds from PP&E, investment property and intangible assets	(1,352)		
(1,414)	Other Receipts from Investing Activities	(2,749)		
21,507	**Net Cash Flows from Investing Activities**		**30,242**	
	Financing Activities			
(6,732)	Cash receipts from short and long term borrowing	(7,526)		
1,669	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,745		
9,518	Repayments of short and long term borrowing	3,051		
4,455	**Net Cash Flows from Financing Activities**		(2,730)	
(7,010)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**5,122**	
3,747	Cash and Cash Equivalents at the beginning of the reporting period		10,757	
10,757	Cash and Cash Equivalents at the end of the reporting period		5,635	**34**
(7,010)	Movement		**5,122**	

Remuneration Report

The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No 2011/64) amend the Local Authority Accounts (Scotland) Regulations 1985 (SI No 1985/267) and require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

All information disclosed in tables 1-6 (pages 29-35) in this Remuneration Report has been audited by KPMG. The other sections of the Remuneration Report will be reviewed by KPMG to ensure that they are consistent with the financial statements.

Remuneration of 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.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2011/12 the salary for the Leader of Scottish Borders Council is £33,867. 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 £340,935. 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 Civic Head.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader, is £317,829. 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 Council 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 28 October 2010.

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 sets the salaries for the Chief Executives of Scottish local authorities. Teaching staff salaries are set by The Scottish Negotiating Committee for Teachers (SNCT). Circular CO/144 sets the amount of salary for the Chief Executive of Scottish Borders Council for the period 2011/12.

A senior employee is any employee who meets one or more of the following criteria:

- 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.
- Who 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.
- Whose annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

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.

Remuneration Report

Table 1 (2011/12) and Table 2 (2010/11) below show the numbers of employees at Scottish Borders Council whose remuneration was £50,000 or more, excluding employer's pension and national insurance contributions.

Table 1

2011/12	Chief Officer	Manual	Other Staff	Teachers	Total
£50,000 - £54,999 *	-	3	21	39	63
£55,000 - £59,999 *	2	-	5	7	14
£60,000 - £64,999	7	-	-	1	8
£65,000 - £69,999 *	-	-	2	2	4
£70,000 - £74,999	3	-	-	2	5
£75,000 - £79,999	10	-	-	-	10
£80,000 - £84,999	-	-	-	-	-
£85,000 - £89,999	1	-	-	-	1
£90,000 - £94,999	-	-	-	-	-
£95,000 - £99,999	-	-	-	-	-
£100,000 - £104,999	-	-	-	-	-
£105,000 - £109,999	2	-	-	-	2
£110,000 - £114,999	1	-	-	-	1
£115,000 - £119,999	-	-	-	-	-
£120,000 - £124,999	-	-	-	-	-
£125,000 - £129,999	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-
£135,000 - £139,999	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	-
£155,000 - £159,999	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-
£165,000- £169,999 *	1	-	-	-	1
Total	27	3	28	51	109

Table 2

2010/11	Chief Officer	Manual	Other Staff	Teachers	Total
£50,000 - £54,999 *	-	2	16	39	57
£55,000 - £59,999	1	-	1	14	16
£60,000 - £64,999	4	-	-	2	6
£65,000 - £69,999	-	-	-	1	1
£70,000 - £74,999 *	12	-	-	4	16
£75,000 - £79,999	-	-	-	1	1
£80,000 - £84,999	-	-	-	-	-
£85,000 - £89,999	1	-	-	-	1
£90,000 - £94,999 *	1	-	-	1	2
£95,000 - £99,999	-	-	-	-	-
£100,000 - £104,999	3	-	-	-	3
£105,000 - £109,999 *	2	-	-	-	2
£110,000 - £114,999	-	-	-	-	-
£115,000 - £119,999	-	-	-	-	-
£120,000 - £124,999	1	-	-	-	1
£125,000 - £129,999	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-
£135,000 - £139,999 *	1	-	-	-	1
Total	26	2	17	62	107

Remuneration Report

On tables 1 & 2 on page 29 an * indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement.

In December 2011 the pay date of the 15th of the month was changed to the last working day of the month therefore during the Tax Year 2011/12 employees paid under Chief Officer and Other Staff Groups were paid for an extra 16 days. As a result a number of individuals have been paid in excess of £50,000, ordinarily they would not have been paid in excess of £50,000. Additionally, a number of individuals are shown in a higher band than they ordinarily would have been had the extra 16 days not been paid.

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for both 2011/12 and 2010/11:

Exit Package Cost band (including special payments) 2011/12	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 - £19,999	2	68	70	601,273
£20,000 - £39,999	-	51	51	1,500,704
£40,000 - £59,999	-	5	5	254,944
£60,000 - £79,999	-	7	7	487,923
£80,000 - £99,999	-	1	1	94,810
£100,000 - £149,999	-	2	2	230,122
£150,000 - £199,999	-	-	-	-
£200,000 - £250,000	1	1	2	410,207
Total	3	135	138	3,579,983

The total costs of £3.580m in the table above includes exit packages that have been agreed, accrued for and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. A provision of £1.815m was set aside in 2010/11 to fund part of these costs. The annual recurring savings from these exit packages will be £2.557m with a payback period of 1.4 years. In addition the Council's Comprehensive Income and Expenditure Statement includes a provision for £1.049m which has been agreed for 2011/12, these costs are not included in the bands.

Exit Package Cost band (including special payments) 2010/11	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 - £19,999	-	53	53	422,958
£20,000 - £39,999	-	23	23	672,692
£40,000 - £59,999	-	6	6	281,652
£60,000 - £79,999	-	6	6	211,302
£80,000 - £99,999	-	3	3	274,966
£100,000 - £149,999	-	3	3	495,130
£150,000 - £199,999	-	-	-	-
£200,000 - £250,000	-	-	-	-
Total	-	94	94	2,358,700

Pension Benefits

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

Councillors' pension benefits are based on a career average pay. The Councillors pay for each year or part year ending 31 March is increased by the increase in 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 this 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 scheme's normal retirement age 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 pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees. The tiers and members contributions rates for 2011/12 are as follows:

2010/11	Whole Time Pay	2011/12
5.50%	On earnings up to and including £18,500	5.50%
7.25%	On earnings above £18,500 and up to and including £22,600	7.25%
8.50%	On earnings above £22,600 and up to and including £30,900	8.50%
9.50%	On earnings above £30,900 and up to and including £41,200	9.50%
12.00%	On earnings above £41,200	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.

There is no automatic entitlement to a lump sum. Members 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 a full pension on retirement without reduction on account of its payment at that age; without exercising 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

The following tables provide details of the remuneration paid to the Council's Senior Councillors and Senior Employees.

Remuneration of Senior Councillors
Table 3

Total Remuneration 2010/11 £	Councillor Name	Responsibility	Total Remuneration 2011/12 £
32,470	D Parker	Leader	33,867
24,353	A Hutton	Convener	25,400
24,353	AJ Nicol	Depute Leader	25,400
24,353	N Calvert	Depute Leader	25,400
17,586	G Turnbull	Executive Member Education	25,203
24,164	MJ Cook	Executive Member Corporate Improvement	25,203
21,013	VM Davidson	Executive Member Economic Development	21,917
21,013	JL Wyse	Executive Member Environmental Services	21,917
21,013	GHT Garvie	Executive Member Culture, Sport and Community Learning	21,917
21,013	CA Riddle-Carre	Executive Member Planning and Environment	21,917
21,013	JA Fullarton	Executive Member Roads and Infrastructure	21,917
16,383	FA Renton	Executive Member for Social Care and Health	21,917
19,321	R Smith	Executive Menber for Children and Strategic Services / Vice Convenor	21,917
18,123	JB Houston	Chairman (Planning and Building Standards)	18,902
18,123	DP Moffat	Chairman (Scrutiny)	18,902
3,045	S Scott (2)	Executive Member Communities and Health	3,176
327,339	**Total**		354,872

Notes

(1) The change of the pay date from the 15th of the month to the end of the month enacted in December 2011 for all monthly paid non-teaching staff and Elected Members resulted in 12 and a half months salary being paid in cash terms during the financial year 2011/12. In accounting terms only 12 months of payments continue to be reflected in the accounts and monthly paid Elected Members continue to be paid monthly in arrears on the last working day of the month.

(2) S Scott: Councillor Scott held the position of Executive Member for Communities and Health, although not a Senior Councillor remunerated post, Councillor Scott also held the position of Vice Convenor for Lothian and Borders Community Justice Authority which is a remunerated post. His remuneration for 2011/12 was £3,176 (2010/11 £3,045). This excludes his standard remuneration for the Council.

Remuneration paid to Councillors

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

2010/11 £'000		2011/12 £'000
646	Salaries	647
119	Expenses	113
765	**Total**	**760**

The annual return of Councillors' salaries and expenses for 2011/12 is available on the Council's website at www.scotborders.gov.uk.

Remuneration of Senior Employees of the Council

Table 4

2010/11			2011/12			
Total Remuneration £	Name	Post Title	Salaries, fees and allowances £	Compensation for loss of employment £	Benefits other than in cash £	Total Remuneration £
123,136	D Hume (2)	Chief Executive until 15/08/2011	77,054 (FYE 119,223)	103,174	9,590	189,818
101,335	TM Logan (3) and (4)	Director of Resources until 26/10/2011, Acting Chief Executive from 1 to 31 August 2011, Chief Executive from 27/10/2011	113,387 (FYE 101,217) (FYE 115,902)	-	72	113,459
101,394	JG Rodger (5)	Director of Education & Lifelong Learning, Acting Chief Executive from 1 to 30 September 2011	107,104 (FYE 101,217)	-	-	107,104
91,106	IM Lindley (6)	Director of Planning & Economic Development until 8 May 2011	13,418 (FYE 90,918)	46,333 Annual Compensation 10.575	-	70,326
101,394	AC Lowe (7)	Director of Social Work, Acting Chief Executive from 1 to 31 July 2011 and 1 to 31 October 2011	108,605 (FYE 101,217)	-	-	108,605
-	JR Dickson (8)	Director of Environment & Infrastructure from 23 May 2011	86,796 (FYE 101,217)	-	-	86,796
-	YFM McCracken (10)	Acting Director of Education & Lifelong Learning from 1 to 30 September 2011	8,149	-	-	8,149
-	KD Robertson (9)	Chief Financial Officer from 19 September 2011	43,097 (FYE 80,604)	-	-	43,097
518,365	**Total**		**557,610**	**160,082**	**9,662**	**727,354**

No SBC senior employees received remuneration from subsidiaries during 2011/12.

<u>Note</u>

(1) The change of pay date from 15th of the month to the end of the month enacted in December 2011 for all monthly paid non-teaching staff resulted in 12 and a half months salary being paid in cash terms during the financial year 2011/12. In accounting terms only 12 months of payments continue to be reflected in the accounts and employees continue to be paid monthly in arrears on the last working day of the month.

(2) D Hume left the post of Chief Executive on 15 August 2011. The position was covered by Acting up arrangements during the period of absence prior to leaving post and up to an including the appointment of TM Logan on 27 October 2011. The £77,054 figure includes £11,258 for Returning Officer fee for the Scottish Parliamentary Elections and Alternative Vote Referendum in May 2011.

(3) TM Logan left the post of Director of Resources on 26 October 2011, this post remained vacant for the rest of the financial year. The full year equivalent salary is £101,217.

(4) TM Logan was appointed Chief Executive on 27 October 2011 and had a period of Acting Chief Executive from 1 to 31 August 2011. The full year equivalent salary is £115,902.

(5) JG Rodger remained appointed as Director of Education & Lifelong Learning, however was Acting Chief Executive from 1 to 30 September 2011.

(6) IM Lindley left the post of Director of Planning & Economic Development on 8 May 2011, this post was subsequently deleted as part of an organisational review. The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 make provision for authorities to make discretionary payments to local government employees to pay compensation for premature retirement. Ian Lindley has been credited with 10 years additional period of service.

(7) AC Lowe remained employed as Director of Social Work, however, was Acting Chief Executive from 1 to 31 July 2011 and 1 to 31 October 2011. (overlap with TM Logan from 27-31 October 2011 due to the contractual position, i.e. notice).

(8) JR Dickson was appointed to the post of Director of Environment & Infrastructure on 23 May 2011, the post was vacant until this appointment.

Remuneration Report

(9) KD Robertson was appointed to the post of Chief Financial Officer on 19 September 2011, the post was vacant until this appointment.
(10) YFM McCracken, Head of Schools Service, was Acting Director of Education & Lifelong Learning from 1 to 30 September 2011.

Pension Benefits

Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2012 are shown in the table 5 below, together with the contribution made by the Council to each Senior Councillors pension during the year. It should be noted all 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.

Table 5

Councillor Name	Responsibility	In-year pension contributions			Accrued pension benefits	
		For year to 31 March 2012 £	For year to 31 March 2011 £	Type	As at 31 March 2012 £	Difference from 31 March 2011 £
D Parker	Leader	6,096	5,845	Pension	2,539 p.a.	634 p.a.
				Lump Sum	2,462	74
A Hutton	Convener	4,572	4,384	Pension	1,907 p.a.	475p.a.
				Lump Sum	1,849	55
RH Smith	Executive Member for Children and Strategic Services / Vice Convenor	3,945	3,478	Pension	1,492 p.a.	400 p.a.
				Lump Sum	1,447	79
N Calvert	Depute Leader	4,572	4,384	Pension	1,906 p.a.	474 p.a.
				Lump Sum	1,850	56
G Turnbull	Executive Member Education	4,537	3,961	Pension	1,489 p.a.	447 p.a.
				Lump Sum	1,444	138
MJ Cook	Executive Member Corporate Improvement	4,536	4,340	Pension	1,890 p.a.	472 p.a.
				Lump Sum	1,833	56
V Davidson	Executive Member Economic Development	3,945	3,782	Pension	1,645 p.a.	410 p.a.
				Lump Sum	1,596	48
JL Wyse	Executive Member Environmental Services	3,945	3,782	Pension	13,052 p.a.	803 p.a.
				Lump Sum	35,814	1,227
CA Riddell-Carre	Executive Member Planning and Environment	3,945	3,782	Pension	3,426 p.a.	472 p.a
				Lump Sum	6,936	232
J Fullarton	Executive Member Roads and Infrastructure	3,945	3,782	Pension	1,645 p.a.	410 p.a.
				Lump Sum	1,596	48
JB Houston	Chairman (Planning and Building Standards)	3,402	3,262	Pension	1,411 p.a	352 p.a.
				Lump Sum	1,370	43
DP Moffat	Chairman (Scrutiny)	3,403	3,262	Pension	1,422 p.a.	354 p.a.
				Lump Sum	1,379	41
Total		50,843	48,044			

<u>Note</u>

(1) Councillors Nicol, Garvie and Renton 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 and Lump Sum in addition to their Statutory benefits.

Senior Employees

The pension entitlements for Senior Employees for the year to 31 March 2012 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Table 6

Name	Post Title	In-year pension contributions			Accrued pension benefits	
		For year to 31 March 2012 £	For year to 31 March 2011 £	Type	As at 31 March 2012 £	Difference from 31 March 2011 £
D Hume (1)	Chief Executive	106,917	21,460	Pension		(49,013) p.a.
				Lump Sum	-	(136,392)
TM Logan (2)	Director of Resources	20,410	18,187	Pension	27,844 p.a.	3,690 p.a.
				Lump Sum	67,161	4,819
JG Rodger (3)	Director of Education & Lifelong Learning	19,273	18,200	Pension	43,101 p.a.	2,312 p.a.
				Lump Sum	113,884	1,637
IM Lindley (4)	Director of Planning & Economic Development	154,559	16,348	Pension		(33,316) p.a.
				Lump Sum	-	(90,858)
AC Lowe (5)	Director of Social Work	19,543	18,200	Pension	44,009 p.a.	3,192 p.a.
				Lump Sum	116,294	3,964
JR Dickson (6)	Director of Environment & Infrastructure	15,623	-	Pension	1,447 p.a.	
				Lump Sum	-	-
YFM McCracken (7)	Acting Director of Education & Lifelong Learning	1,467	1,079	Pension	6,305 p.a.	1,094p.a.
				Lump Sum	11,835	338
KD Robertson (8)	Chief Financial Officer	7,757	-	Pension	20,715 p.a.	20,715 p.a.
				Lump Sum	50,043	50,043
Total		345,549	93,474			

Note

(1) D Hume left the post of Chief Executive on 15 August 2011, the figures include returning officer pension benefits and additional payments made by the Council to the Pension Fund. The accrued benefits as at date of leaving (Pension: £50,374 pa, Lump Sum: £136,392) have now been realised.
(2) TM Logan left the post of Director of Resources on 26 October 2011 and was appointed Chief Executive on 27 October 2011
(3) JG Rodger was acting Chief Executive from 1 to 30 September 2011
(4) IM Lindley left on 8 May 2011; the figures include additional payments made by the Council to the Pension Fund. The accrued benefits as at date of leaving (Pension: £34,153 pa, Lump Sum: £92,895) have now been realised.
(5) AC Lowe was acting Chief Executive from 1 to 31 July 2011 and 1 to 31 October 2011
(6) JR Dickson started on 23 May 2011
(7) YFM McCracken was acting Director of Education & Lifelong Learning from 1 to 30 September 2011, the pension benefits figures are for a full year and not just for the acting up period
(8) KD Robertson started on 19 September 2011

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 not required to be made by an individual under the LGPS).

Signed

Tracey Logan
Chief Executive
24 September 2012

Councillor David Parker
Leader of the Council
24 September 2012

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 2011/12, Heritage assets held by the Authority have been recognised for the first time in the 2011/12 financial statements, see note 13 for further details.

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

Amendments to IFRS 7 – Financial Instruments : Disclosures transfer of financial assets are intended to assist users of the financial statements to evaluate the risk exposures that relate to the transfer of financial assets and the effect of those risks on the Council's financial position. This will be reflected in the 2012/13 financial statements.

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.
- The Council has £5m deposited with Heritable Bank. During 2009/10, 2010/11 and 2011/12 67.9% was received, on this basis the accounts have been prepared assuming that 88% of the claim will be recovered.
- The Council has £5m deposited with Landsbanki Islands hf. During 2011/12 £1.5m was received, on this basis the accounts have been prepared assuming that 100% of the claim will be recovered.
- 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 recognized 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.

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:

Portfolio Income and Expenditure 2011/12

	Chief Executive £'000	Resources £'000	Education £'000	Social Work £'000	Enviromental & Infrastructure £'000	Corporate Programmes, Partnerships & Projects £'000	Other £'000	Total £'000
Employee Costs	1,568	19,871	65,810	41,106	18,356	4,202	-	150,913
Premises Costs	-	3,407	8,926	1,825	1,659	-	2,089	17,906
Transport Costs	16	362	3,966	3,648	13,659	4	-	21,655
Supplies & Services Costs	169	5,217	7,060	2,069	5,658	146	37,341	57,660
Third Party Payments	113	1,299	12,529	46,173	10,395	246	16,589	87,344
Transfer Payments	-	-	540	241	-	-	27,898	28,679
Support Services	4	1,377	616	470	115	46	28	2,656
Capital Charges	-	-	-	-	62	-	19,959	20,021
Income	(580)	(12,472)	(5,023)	(17,993)	(18,624)	(484)	(65,314)	(120,490)
	1,290	19,061	94,424	77,539	31,280	4,160	38,590	266,344

Reconciliation to Subjective Analysis 2011/12

Reconciliation of departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (CIES).

	Portfolio Analysis £'000	Not in Net Cost of Services £'000	Not reported to Management £'000	Not included in CIES £'000	Total £'000
Employee Costs	150,913	-	(553)	(1,557)	148,803
Premises Costs	17,906	-	180	-	18,086
Transport Costs	21,655	-	(74)	-	21,581
Supplies & Services Costs	57,660	-	368	-	58,028
Third Party Payments	87,344	-	-	-	87,344
Transfer Payments	28,679	-	-	-	28,679
Support Services	2,656	-	-	-	2,656
Capital Charges	20,021	(14,167)	18,400	(10,681)	13,573
Income	(120,490)	1	-	-	(120,489)
	266,344	(14,166)	18,321	(12,238)	258,261

Notes to the Core Financial Statements

Comparative figures for principal departments:

Portfolio Income and Expenditure 2010/11

	Chief Executive £'000	Resources £'000	Education £'000	Planning & Economic Development £'000	Social Work £'000	Technical Services £'000	Corporate Programmes, Partnerships & Projects £'000	Other £'000	Total £'000
Employee Costs	2,732	18,933	68,594	3,486	43,072	16,419	595	2,482	156,313
Premises Costs	-	1,687	8,876	233	1,725	1,494	13	1,952	15,980
Transport Costs	29	318	3,995	87	3,770	14,099	9	(3)	22,304
Supplies & Services Costs	498	4,658	7,068	745	1,939	4,550	191	34,081	53,730
Third Party Payments	386	1,335	5,970	1,532	63,898	12,139	1,473	17,030	103,763
Transfer Payments	-	-	565	-	222	-	-	25,871	26,658
Support Services	1,594	1,269	4,369	1,009	4,885	8,354	438	201	22,119
Capital Charges	35	6,114	8,289	383	1,507	11,214	1	18,952	46,495
Income	(1,705)	(27,844)	(5,614)	(2,878)	(37,047)	(19,389)	(498)	(59,023)	(153,998)
	3,569	6,470	102,112	4,597	83,971	48,880	2,222	41,543	293,364

Reconciliation to Subjective Analysis 2010/11

	Portfolio Analysis £'000	Not in Net Cost of Services £'000	Not reported to Management £'000	Not included in CIES £'000	Total £'000
Employee Costs	156,313	24	(34,408)	-	121,929
Premises Costs	15,980	-	16	-	15,996
Transport Costs	22,304	-	(61)	-	22,243
Supplies & Services Costs	53,730	(33)	3	-	53,700
Third Party Payments	103,763	-	-	-	103,763
Transfer Payments	26,658	-	-	-	26,658
Support Services	22,119	-	-	-	22,119
Capital Charges	46,495	-	5,493	(18,930)	33,058
Income	(153,998)	195	-	-	(153,803)
	293,364	186	(28,957)	(18,930)	245,663

It should be noted that during 2011/12 the Planning & Economic Development Department and the Technical Services Department were amalgamated to become the Environmental & Infrastructure Department.

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2011/12 financial year.

Note 7 Exceptional Items, Extraordinary Items and Prior Year Adjustments

Included within the cost of £2.249m for Non-Distributed Costs is an IAS19 previous adjustment of £2.201m. The prior year comparative figure of (£27.977m) is the net effect of a prior year depreciation adjustment (£0.279m), surplus asset impairment £5.772m and an IAS 19 past service gain (£33.470m).

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:

2009/10 £'000	2010/11 £'000		2011/12 £'000	3 Year Cumulative £'000
UKGAAP	IFRS	Accounting Basis	IFRS	
(24,631)	(22,894)	Turnover for the Year	(25,971)	(73,496)
(212)	(186)	(Surplus) / Deficit	25	(373)

SBc Contracts undertakes a wide range of activities including:

- A range of revenue and capital work for Council Services (mainly highways and bridges construction).
- Improvement and repair of roads and bridges assets.
- The provision of a comprehensive Winter Maintenance Service.
- External contracts for other local authorities and the Scottish Government.
- Sub-contractor on a number of public contracts including Kelso cemetery and Galashiels Inner Relief Road.
- A wide range of external contracts for the private sector.

SBc Contracts employs 181 manual workers and around 20 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The organisation continued to contribute strongly to Council resources both directly and indirectly through:

- Supporting additional high added-value jobs in the Vehicle Maintenance trading operation.
- Maintaining very competitive charge-out rates to offer “Best Value” for Council revenue and capital projects.

In 2011/12 SBc Contracts recorded an annual deficit of £0.025m against an internal budget target of a £0.061m deficit.

Notes to the Core Financial Statements

Note 8 Significant Trading Operation (continued)

In 2011/12 turnover increased by £3.08m (13.4%) to £26.0m despite difficult internal and external trading conditions. Of this total, £12.9m (49.6%) was generated by non Scottish Borders Council work. SBc Contracts again contributed very strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £5.46m during 2011/12. Within the overall £0.025m deficit generated in 2011/12, a surplus of £0.098m was generated from external work and a deficit of £0.123m generated on internal work.

Significant trading operations are statutorily required to at least achieve break-even over rolling three-year periods. For the three year period ending in financial year 2011/12, SBc Contracts recorded a surplus in two of the three years and generated a cumulative total surplus of £0.373m.

Note 9 Agency Work

The Council acts as an intermediary in some instances collecting money on behalf of various organisations, as detailed below:

2010/11 £'000			2011/12 £'000
307	Scottish Water	Collection of domestic water and waste water charges	322
7	Scottish Government	Trunk Road Management Fee	2
314	**Total**		**324**

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 2011/12. The Members' Register of Interests can be inspected and is available on the Council's web site.

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 2011/12 the Pension Fund had an average balance of £5.449m (2011: £3.228m) of cash administered by the Council with separate banking arrangements, which earned interest of £0.028m (2011: £0.011m). In addition the Council charged the Pension Fund £0.265m in respect of expenses incurred in its administration.

	2011	**2012**
Due to the Pension Fund	£0.799m	£0.134m

The Council provided material financial assistance to other bodies in 2011/12 as follows:-

- Borders Sport and Leisure Trust £1.462m
- Jedburgh Leisure Facilities Trust £0.126m
- VisitScotland £0.120m

Expenditure in relation to the Joint Police and Fire & Rescue Boards was:

• Police	£9.401m
• Fire & Rescue	£7.189m

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

Resource Transfer – a total of £2.420m was transferred from NHS Borders and utilised as follows:-

• Children's Services	£0.101m
• Older People	£1.226m
• Adults with Learning Difficulties	£0.926m
• People with Mental Health Needs	£0.120m
• Support Services	£0.047m

Other funding from NHS Borders in 2011/12 to support services are:

• Older people	£0.074m
• Adults with Learning Difficulties	£1.229m
• People with Mental Health Needs	£0.087m
• People with Physical Difficulties	£0.418m

Borders Ability Equipment Store

- The store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.815m in 2011/12 with a contribution from the NHS Borders of £0.250m (included in the £0.418m above).

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 £0.021m to Scottish Borders Council. All other expenditure is incurred by Scottish Borders Council.

During 2011/12 the Council had a number of material transactions with Transport Scotland in relation to the Waverley Railway project, although the authorised undertaking role transferred to Transport Scotland during 2008/09. The Council has been involved in procuring land, along with design and utility work. In respect of 2011/12 grant funding of £6.173m was received from Transport Scotland.

Note 11 Audit Remuneration

In 2011/12 the agreed audit fee for the year was £314,292 in respect of services provided by KPMG (2010/11 £329,400 Audit Scotland).

This fee includes a charge of £23,000 for a separate audit of the annual report and accounts for Scottish Borders Pensions Fund.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movements on Balances

	Property Plant & Equipment							
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Assets Held for Sale £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2011	**326,271**	**49,779**	**126,605**	**50,382**	**4,868**	**170**	**-**	**558,075**
Prior Period adjustment	**2**	**(18)**	**-**	**-**	**220**	**(170)**	**-**	**34**
Revised Gross book value (GBV) at 31 March 2011	**326,273**	**49,761**	**126,605**	**50,382**	**5,088**	**-**	**-**	**558,109**
Acquisitions & Recognition in the year	5,767	6,984	5,981	12,164	-	-	971	**31,867**
Transfers between categories	(101)	(1,214)	5	574	510	-	-	**(226)**
Revaluations	814	-	-	-	709	-	-	**1,523**
Impairments	(2,255)	(661)	-	-	(307)	-	-	**(3,223)**
Disposals	(1,460)	(3,271)	-	-	(25)	-	-	**(4,756)**
Gross book value (GBV) at 31 March 2012	**329,038**	**51,599**	**132,591**	**63,120**	**5,975**	**-**	**971**	**583,294**
Cumulative depreciation at 31 March 2011	**(23,611)**	**(32,801)**	**(52,299)**	**-**	**137**	**(170)**	**-**	**(108,744)**
Prior Period adjustment	**(2)**	**218**	**-**	**-**	**(218)**	**170**	**-**	**168**
Revised Cumulative depreciation at 31 March 2011	**(23,613)**	**(32,583)**	**(52,299)**	**-**	**(81)**	**-**	**-**	**(108,576)**
Depreciation for the year	(8,724)	(5,239)	(5,182)	-	(105)	-	-	**(19,250)**
Transfers between categories	153	26	-	-	(83)	-	-	**96**
Revaluations	1,800	-	-	-	147	-	-	**1,947**
Impairments	1,122	-	-	-	17	-	-	**1,139**
Disposals	178	3,226	-	-	-	-	-	**3,404**
Cumulative depreciation at 31 March 2012	**(29,084)**	**(34,570)**	**(57,481)**	**-**	**(105)**	**-**	**-**	**(121,240)**
Net book value at 31 March 2012	**299,954**	**17,029**	**75,110**	**63,120**	**5,870**	**-**	**971**	**462,054**
Net book value at 31 March 2011	**302,660**	**16,978**	**74,306**	**50,382**	**5,005**	**-**	**-**	**449,331**
Prior Period adjustment	**-**	**200**	**-**	**-**	**2**	**-**	**-**	**202**
Revised Net book value at 31 March 2011	**302,660**	**17,178**	**74,306**	**50,382**	**5,007**	**-**	**-**	**449,533**

The Council had no investment properties in 2011/12.

Community assets are valued on a historical cost basis at Nil value as per the Code of Practice and include assets such as parks, playing fields, cemeteries, etc.

Negative revaluations are shown within the stated figures for impairment. In 2011/12 this amounted to a NBV of £0.108m. Shown within the line for disposals are transfers to Common Good (NBV £0.851m).

Capital Commitments

As at 31 March 2012 the Council has entered into a number of commitments for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years, this is budgeted to cost £12.5m. These commitments can be categorised as follows:-

	Capital Commitments £'000
Engineering Infrastructure	1,595
Property	8,524
Business Infrastructure	2,349
Total	**12,468**

Within the figure for Engineering Infrastructure, £0.6m relates to the land purchase arrangements for the Borders Railway which is fully funded by specific grants from Transport Scotland.

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 2011/12 the fixed assets of the Social Work and Resources departments and Surplus Properties were re-valued. This included residential care homes, day centres and administrative buildings.
- 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 and Plant etc.

- 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 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
- 1 April 2008 – Education Properties
- 1 April 2007 – Social Work and Corporate Resources properties

Education will be revalued as at 1 April 2012 with the resulting adjustments incorporated into the 2012/13 accounts of the Council.

	Property Plant & Equipment							
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Assets Held for Sale £'000	Heritage Assets £'000	Total Assets £'000
Carried at Historical Cost	117,841	51,599	132,591	62,870	1,133	-	971	**367,005**
New Certified Valuation								
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	31,574	-	-	-	62	-	-	**31,636**
								-
Gross book value (GBV) at 31 March 2012	**329,038**	**51,599**	**132,591**	**63,120**	**5,975**	**-**	**971**	**583,294**

Note 13 Heritage Assets

This is the first year in which all identified Heritage Assets have been recognised on the Balance Sheet and the movement on each of the collections is shown in the following table. There are no prior year figures to show and these figures form the first year for the future reporting of five year asset transactions.

	Museum Collection £'000	Fine Arts Collection £'000	Archive Centre Collection (Tangible) £'000	Monuments, Memorials & Statues £'000	Totals Tangible Fixed Assets £'000	Archive Centre Collection (Intangible) £'000	Total Heritage Assets £'000
Cost or Valuation at 31 March 2011	-	-	-	-	-	-	-
Additions	161	771	-	39	971	-	971
Disposals	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
Cost or Valuation at 31 March 2012	**161**	**771**	**-**	**39**	**971**	**-**	**971**

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 Borders families, locations and institutions.

Monuments, Memorials and Statues Collection
This collection is recorded in the Property & Facilities Service of the Environment and Infrastructure 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.

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.

2010/11 £'000		2011/12 £'000
2,552	**Gross book value (GBV) at 31 March**	2,614
62	Expenditure in the year	252
-	Transfers	226
2,614	**Gross book value (GBV) at 31 March**	**3,092**
(1,539)	**Cumulative amortisation at 31 March**	(2,000)
(461)	Amortisation for the year	(402)
-	Transfers	(97)
(2,000)	**Cumulative amortisation at 31 March**	**(2,499)**
614	**Net book value at 31 March**	**593**

There were no disposals, revaluations or impairments of intangible assets in 2011/12.

Notes to the Core Financial Statements

Note 15 Assets Held for Sale

2010/11 £'000		2011/12 £'000
156	**Balance outstanding at start of year**	**-**
1	Assets newly classified as held for sale	-
(9)	Assets declassified as held for sale	-
(148)	Assets sold	-
-	**Balance outstanding at year-end**	**-**

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 2012 are as follows:

	Payment for Services £'000	Interest £'000	Total £'000
Payable in 2012/13	4,781	3,055	7,836
Payable within two to five years	20,443	11,356	31,799
Payable within six to ten years	32,079	12,352	44,431
Payable within eleven to fifteen years	40,148	10,120	50,268
Payable within sixteen to twenty years	49,339	7,535	56,874
Payable within twenty one to twenty five years	60,419	3,929	64,348
Payable within twenty six to thirty years	22,961	368	23,329
Total	230,170	48,715	278,885

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 incurred and interest payable whilst the capital expenditure remains to be reimbursed.

Note 17 Leases

(Lessee)

In its capacity as lessee, the Council made the following payments to lessors in 2011/12:

2010/11 £'000		2011/12 £'000
	Operating Leases	
-	Land and buildings	-
211	Plant and equipment	183
211	Sub total	183
	Finance Leases	
4,743	Land and buildings	4,889
394	Plant and equipment	163
5,137	Sub total	5,052
5,348	**Total**	**5,235**

The following assets were held under finance leases:

2010/11 £'000		2011/12 £'000
	Gross Asset Value	
72,512	Land and buildings	72,512
4,904	Plant and equipment	3,494
77,416		76,006
	Accumulated Depreciation	
(4,096)	Land and buildings	(6,141)
(4,355)	Plant and equipment	(3,183)
(8,451)		(9,324)
	Net Asset Value	
68,416	Land and buildings	66,371
549	Plant and equipment	311
68,965		**66,682**

Depreciation of £2.83m was charged to 2011/12 (2010/11: £4.11m). Finance lease obligations, net of finance charges, are as follows:

Land & Buildings 2010/11 £'000	Plant & Equipment 2010/11 £'000		Land & Buildings 2011/12 £'000	Plant & Equipment 2011/12 £'000
1,624	167	Not later than 1 year	1,867	117
6,778	156	Later than 1 year and not later than 5 years	6,734	32
55,116	-	Later than 5 years	53,161	-
63,518	**323**	Total	**61,762**	**149**

Aggregate finance charges in respect of finance leases totalled £3.151m (£3.212m in 2010/11).

There were no commitments existing at the balance sheet date in respect of finance leases which have been entered into but whose commencement occurs after the year end.

Notes to the Core Financial Statements

In respect of operating leases the Council is committed to make payments of £0.053m in 2012/13, relating to obligations expiring as follows :-

Plant & Equipment 2011/12 £'000		Plant & Equipment 2012/13 £'000
13	Not later than 1 year	9
54	Later than 1 year and not later than 5 years	44
67	Total	**53**

(Lessor)

As lessor, the aggregate rentals receivable in the year were as follows:-

2010/11 £'000		2011/12 £'000
(1,757)	Operating leases	(2,458)
(1,757)	**Total**	**(2,458)**

At the 31 March 2012 the Council had no investments in finance leases as lessor.

The Gross Book Value of assets held for use in operating leases was £8.86m with related accumulated depreciation charges of £0.73m.

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.

2010/11 £'000		2011/12 £'000	
260,777	Opening capital financing requirement		263,346
	Capital Investment		
27,495	Property plant and equipment	30,932	
1	Assets held for sale	-	
62	Intangible assets	252	
-	PPP schools transferred during the year	-	31,184
	Sources of Finance		
(3,581)	Capital receipts	(447)	
(11,604)	Government grants and other contributions	(20,096)	
(9,804)	Loans fund repayments	(10,428)	(30,971)
263,346	**Closing Capital Financing Requirement**		**263,559**

Note 18 Capital Expenditure and Capital Financing (continued)

2010/11 £'000		2011/12 £'000
	Explanation of Movements in Year	
9,185	Increase in underlying need to borrow (supported by government financial assistance)	-
(6,616)	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)	213
-	Assets acquired under PPP contracts	-
2,569	**Increase in Capital Financing Requirement**	**213**

Note 19 Termination Benefits

As explained in the Remuneration Report, the Council terminated the contracts of 138 employees in 2011/12 incurring liabilities of £3.580m. These liabilities are not from a particular area but from throughout the whole Council.

Note 20 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed 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, with pensioners receiving index-linked pensions. 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

Assets and Liabilities in Relation to Post-employment Benefits

2010/11 £'000	Comprehensive Income and Expenditure Statement	2011/12 £'000
	Cost of Services	
13,699	Current Service Cost	13,167
(33,949)	Past Service Cost	397
481	Losses (Gains) on Curtailments and Settlements	1,732
	Financing and Investment Income and Expenditure	
25,842	Interest Cost	24,686
(22,790)	Expected Return on Scheme Assets	(24,422)
(16,717)	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**15,561**
	Movement in Reserves Statement	
16,717	Reversal of net charges made for retirement benefits in accordance with the Code	15,561
	Actual amount charged against the General Fund Balance for pensions in the year	
15,391	Employers' contributions payable to the scheme	14,901

The cumulative amount of the actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £100.6m.

Reconciliation of present value of the scheme liabilities:

2010/11 £'000	Reconciliation of the Present Value of Scheme Liabilities	2011/12 £'000
467,812	**Opening Defined Benefit Obligation**	421,281
13,699	Current Service Cost	13,167
25,842	Interest Cost	24,686
4,221	Contributions by Scheme Participants	4,161
(42,607)	Actuarial losses (gains)	94,560
(12,478)	Benefits Paid	(16,522)
481	Curtailments	1,845
-	Liabilities extinguished on settlements	(608)
(33,949)	Past Service Cost	397
(1,740)	Unfunded Pension Payments	(1,574)
421,281	**Closing Defined Benefit Obligation**	**541,393**

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 2012.

Reconciliation of the fair value of the scheme assets:

2010/11 £'000	Reconciliation of Fair Value of Scheme Assets	2011/12 £'000
313,572	**Opening Fair Value of Scheme Assets**	339,303
22,790	Expected Return on Scheme Assets	24,422
(2,453)	Actuarial Gains (Losses)	(6,176)
15,391	Employer Contributions including unfunded pensions	14,901
4,221	Contributions by Scheme Participants	4,161
(14,218)	Estimated Benefits Paid	(18,096)
-	Receipt/(Payment) of bulk transfer value	(495)
339,303	**Closing Fair Value of Scheme Assets**	**358,020**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on the scheme assets in the year was £18.245m (£20.337m in 2010/11).

Scheme History

The table below shows the five year historic data in relation to the value of the assets and liabilities of the Local Government Pension Scheme as well as the actuarial gains and losses in absolute terms and as a percentage of the scheme assets and liabilities.

Summary for the current and previous four years	2011/12 £'000	2010/11 £'000	2009/10 £'000	2008/09 £'000	2007/08 £'000	2006/07 £'000
Defined Benefit Obligation	(541,393)	(421,281)	(467,812)	(283,492)	(315,537)	(337,415)
Scheme Assets	358,020	339,303	313,572	212,847	271,205	284,131
Surplus / (Deficit)	(183,374)	(81,978)	(154,240)	(70,645)	(44,332)	(53,284)
Experience adjustments on Scheme Liabilities	(21,392)	(1,916)	(4,776)	5,730	-	-
Percentage of Liabilities	(4.0%)	(-0.5%)	(1.0%)	(2.0%)	0%	0%
Experience adjustments on Scheme Assets	(6,176)	(2,453)	82,379	(82,107)	(38,649)	(3,765)
Percentage of Assets	(1.7%)	(0.7%)	26.3%	(38.6%)	(14.3%)	(1.3%)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £541.4m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, resulting in a positive overall balance of £26.2m.

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. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £12.0m.

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:

2010/11	Principal Assumptions used by the Actuary	2011/12
	Long-term expected rate of return on assets in the scheme	
7.7%	Equity investments	6.6%
4.4%	Gilts	3.3%
5.5%	Other bonds	4.6%
5.4%	Property	4.3%
3.0%	Cash	3.0%
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
18.60	Men	22.00
21.50	Women	24.30
	- longevity at 65 for future pensioners (years)	
19.50	Men	23.40
22.50	Women	25.80
3.5%	Rate of inflation	3.3%
5.0%	Rate of increase in salaries	4.8%
2.7%	Rate of increase in pensions	2.5%
5.5%	Rate for discounting scheme liabilities	4.6%

The scheme assets consist of the following categories, by proportion and value of the total assets held:

2010/11		Category Analysis of the Fair Value of the	2011/12	
%	£'000	Scheme Assets as at 31 March 2011	%	£'000
77	261,264	Equities	76	272,095
7	23,751	Gilts	7	25,061
8	27,144	Other Bonds	9	32,222
5	16,965	Property	5	17,901
3	10,179	Cash	3	10,741
100	**339,303**	**Total**	**100**	**358,020**

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 2011/12, the Council paid £6.567m to teachers' pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£6.770m and 14.9% in 2010/11). 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 2011/12 these amounted to £0.794m representing 1.74% of pensionable pay (£0.585m and 1.26% in 2010/11).

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 2012 there were 9,005 members.

The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) require an administering authority to publish a 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 will be available by contacting Scottish Borders Council, Resources Department, Council Headquarters, Newtown St Boswells, TD6 0SA.

Note 23 Events After the Balance Sheet Date

It should be noted that the deadline for Scottish Borders Education Partnership (SBEP) to appeal their unsuccessful claim against Scottish Borders Council (as detailed in Note 26 – Contingent Liabilities) has now passed and that no challenge to the original decision has been made.

In September 2012 the Information Commissioner's Office (ICO) imposed a penalty of £250,000 on the Council for a breach of the Data Protection Act. We intend to pay this penalty by the 11th October 2012 which will result in a reduced level of payment of £200,000. The breach was discovered in September 2011.

The Police and Fire Reform (Scotland) Act 2012 received royal assent on 7 August 2012. Responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies on 1 April 2013. The full impact of the reform process is currently being assessed.

Note 24 Inventories

2010/11		2011/12
722	**Balance outstanding at start of year**	**807**
4,508	Purchases	4,352
(4,363)	Recognised as an expense in the year	(4,003)
(60)	Written off balances	7
807	**Balance outstanding at year-end**	**1,163**

Notes to the Core Financial Statements

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	Total £'000
Balance at 1 April 2011	**(278)**	**(320)**	**(1,815)**	**-**	**(2,413)**
Additional charges to provisions	(65)	-	(993)	(260)	**(1,318)**
Payments made or released	213	17	1,759	-	**1,989**
Balance at 31 March 2012	**(130)**	**(303)**	**(1,049)**	**(260)**	**(1,742)**
Within 12 Months	(130)	(303)	(1,049)	(260)	**(1,742)**
Over 12 months	-	-	-	-	-
Total	**(130)**	**(303)**	**(1,049)**	**(260)**	**(1,742)**

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- Scottish Borders Education Partnership (SBEP), a limited company, on behalf of their main Contractor and one of their Sub-contractors, may submit an appeal against the Council seeking compensation for financial loss as a consequence of the Council's alleged delay in providing wayleaves and sub-leases for the installation of electrical supply by Scottish Power at Berwickshire High School. (It should be noted that this is no longer a contingent liability – see note 23 Events After the Balance Sheet.)

  Following adjudication, SBEP have been unsuccessful in pursuit of its claim, but have until the 10th July 2012 to take the dispute to the Court of Session

  The information usually required by IAS37 is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of any potential appeal.

- On the 29th March 2012 at Council, approval was given to provide a financial security to SEPA (on behalf of New Earth Solutions – who are contracted on behalf of SBC) 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.

- SBC is a scheme creditor of Municipal Mutual Insurance (MMI), this organisation ceased operation in 1992 and has outstanding claim liabilities that are currently being managed by a board until they are all extinguished. Following a Supreme Court Ruling on 28th March 2012 we have been advised that there may not be a solvent run-off of mesothelioma (asbestos) claims funding and a Council contribution may be required. The actual cost and timing of any Council contribution cannot be estimated with reasonable accuracy and consequently no provision has been made in the financial statements in respect of these payments. Our last 6 monthly statement for MMI states our maximum potential liability could be £358k.

Note 27 Contingent Assets

At 31 March 2012 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 2011/12.

2010/11 £'000		2011/12 £'000
	Credited to Taxation and Non Specific Grant Income	
(5,932)	General Capital Grant	(11,949)
(3,926)	Waverly Railway	(6,173)
(782)	Other Grants	(1,652)
(562)	Developer Contributions	(465)
(11,202)	**Total**	(20,239)
	Credited to Services	
(581)	Education	(143)
(378)	Housing	(235)
(41)	Cultural & Related Services	(42)
(312)	Environment & Infastructure	(143)
(1,794)	Social Work	(1,422)
(32,861)	Other Grants (including DWP Benefit Subsidy)	(34,460)
(35,967)		(36,445)

Note 29 Financial Instruments

Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000
Investments				
Loans and Receivables	-	-	11,560	5,850
Total Investments	-	-	11,560	5,850
Debtors				
Loans and Receivables	399	1,010	25,526	25,774
Total Debtors	399	1,010	25,526	25,774
Borrowings				
Financial Liabilities (principal amount)	(164,852)	(172,216)	(3,117)	(127)
Accrued interest			(3,164)	(3,263)
Total Borrowings	(164,852)	(172,216)	(6,281)	(3,390)
Other Long-Term Liabilities				
PPP and finance lease liabilities	61,894	61,911	-	(1,867)
Bonds	523	200	-	(117)
Total other long-term liabilities	62,417	62,111	-	(1,984)
Creditors				
Short term creditors at amortised cost	-	-	58,282	46,062
Total Creditors	-	-	58,282	46,062

Notes to the Core Financial Statements

Under accounting requirements the carrying value of the financial instrument shown in the balance sheet includes the principal amount borrowed or lent and further adjustment for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

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

31 March 2011			31 March 2012	
£'000	%		£'000	%
(44,322)	26	Bonds and Mortgages	(44,308)	25
(120,132)	70	Public Works Loan Board	(127,632)	73
(398)	-	European Investment Bank	(276)	-
(164,852)	**96**	**External Borrowing**	**(172,216)**	**98**
(164,852)	**96**	**Long Term Borrowing**	**(172,216)**	**98**
(6,281)	4	Short Term Borrowing repayable within 12 months	(3,390)	2
(171,133)	**100**	**Total Borrowing**	**(175,606)**	**100**

Analysis of Loans by Maturity.

2011 £'000		2012 £'000
(6,281)	Less than 1 year	(3,390)
(270)	Between 1 and 2 years	(140)
(150)	Between 2 and 7 years	(153)
(7,895)	Between 7 and 15 years	(15,395)
(156,537)	More than 15 years	(156,528)
(171,133)	**Total**	**(175,606)**

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

	2011/12				
	Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Assets & Liabilities at fair value through the CIE A/C £'000	Total £'000
Interest expense	12,226	-	-	-	12,226
Impairment Losses	-	284	-	-	284
Interest payable and similar charges	**12,226**	**284**	**-**	**-**	**12,510**
Interest Income	-	(330)	-	-	(330)
Interest and investment income	**-**	**(330)**	**-**	**-**	**(330)**
Impairment Reversal	-	-	-	-	-
Net (gain) / loss for the year	**12,226**	**(46)**	**-**	**-**	**12,180**

	2010/11				
	Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Assets & Liabilities at fair value through the CIE A/C £'000	Total £'000
Interest expense	12,084	-	-	-	12,084
Impairment Losses	-	-	-	-	-
Interest payable and similar charges	**12,084**	**-**	**-**	**-**	**12,084**
Interest Income	-	(376)	-	-	(376)
Interest and investment income	**-**	**(376)**	**-**	**-**	**(376)**
Gains on revaluation	-	(2,083)	-	-	(2,083)
Surplus arising from revaluation of financial assets	**-**	**(2,083)**	**-**	**-**	**(2,083)**
Net (gain) / loss for the year	**12,084**	**(2,459)**	**-**	**-**	**9,625**

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 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(122,773)	(158,708)	(130,371)	(194,624)
Other debt	(48,360)	(44,923)	(45,235)	(55,409)
Total debt	**(171,133)**	**(203,631)**	**(175,606)**	**(250,033)**
Creditors	(58,282)	(58,282)	(46,062)	(46,062)
Total financial liabilities	**(229,415)**	**(261,913)**	**(221,668)**	**(296,095)**

The fair value is greater than the carrying amount because the Councils 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 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Money market loans < 1 year	11,560	11,560	5,850	5,850
Money market loans > 1 year	-	-	-	-
Bonds	-	-	-	-
Total investments	**11,560**	**11,560**	**5,850**	**5,850**
Debtors	25,526	25,526	25,774	25,774
Total loans and receivables	**37,086**	**37,086**	**31,624**	**31,624**

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 commitments to make payments;
- Re-financing risk – the possibility that the Council might be required 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 established through a legal framework based on the Local Government (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 for 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 which incorporates the prudential indicators was approved by the Council on 10 February 2011. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £317.6m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £265.2m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £274.4m and £96.0m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

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

Notes to the Core Financial Statements

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual Treasury 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 ratings services. The Annual Treasury 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 the initial criteria is applied.

The Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three ratings agencies – Fitch, Moodys and Standard & Poors, 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 Investment Strategy for 2011/12 was approved by the Council on 10 February 2011 and is available on the councils 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 recoverability applies to all of the Council deposits, but there was no evidence at 31 March 2012 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.

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 invested with these banks at that time. All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors, such as the authority, will be determined by the administrators/receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The current position on actual payments received and estimated future payouts is shown in the table below and this Council has used these estimates to calculate the impairment based on recovering 88p in the £.

Date	Repayment
Received to Date	67.90%
April 2012	3.79%
July 2012	3.50%
October 2012	3.50%
January 2013	3.50%
April 2013	5.81%

Recoveries are expressed as a percentage of the authority's claim in the administration, which included interest accrued up to 6 October 2008.

Landsbanki

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The Icelandic Supreme Court decision granted UK local authorities priority status and the winding up board made a distribution to creditors in a basket of currencies in February 2012. A further distribution was issued in May 2012.

An element of the distribution (£35k) is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

The current position on estimated future payouts is as shown in the table below and this authority has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment
Received to 31st March 2012	30.00%
May 2012	12.20%
December 2012	7.00%
December 2013	7.00%
December 2014	7.00%
December 2015	7.00%
December 2016	7.00%
December 2017	7.00%
December 2018	7.00%
December 2019	8.80%

Notes to the Core Financial Statements

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than Sterling.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009.

Liquidity Risk

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 it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst 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 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 primarily to the maturing of longer term financial liabilities.

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 10 February 2011:

	Approved Minimum Limits	Approved Minimum Limits	Approved Maximum Limits	Approved Maximum Limits	Actual 31 March 2012	Actual 31 March 2011
	£000	%	£000	%	£000	£000
Less than one year	-	-	54,880	20	3,390	6,281
Between one and two years	-	-	54,880	20	140	270
Between two and seven years	-	-	54,880	20	153	150
Between seven and fifteen years	-	-	54,880	20	15,395	7,895
More than fifteen years	54,880	20	274,400	100	156,528	156,537
Total					**175,606**	**171,133**

Market Risk

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
- 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. 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	(92)
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)	42,165

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed, although 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.

Price Risk - The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.

Foreign Exchange Risk in Relation to Icelandic Deposits – The Council has foreign exchange exposure resulting from an element of the settlement received from Landsbanki. This is being held in Icelandic Kroner in an escrow account due to the imposition of currency controls.

Notes to the Core Financial Statements

Debtor and Creditor Analysis

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

Debtors

2010/11 £'000		2011/12 £'000
2,921	Central government bodies	2,882
259	Other local authorities	230
421	NHS bodies	757
71	Public bodies	225
28,746	Other entities and individuals	29,212
32,418		**33,306**

Creditors

2010/11 £'000		2011/12 £'000
-	Central government bodies	(5,840)
(1)	Other local authorities	-
-	NHS bodies	-
-	Public bodies	(2,507)
(58,281)	Other entities and individuals	(37,715)
(58,282)		**(46,062)**

Note 31 Movement in Reserves

Unusable Reserves

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

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.

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.

A summary of the Unusable Reserves follows:

Notes to the Core Financial Statements

Unusable Reserves

2010/11 £'000		2011/12 £'000
(138,129)	Capital Adjustment Account	(154,697)
6,507	Financial Instruments Adjustment Account	6,275
(48,924)	Revaluation Reserve	(50,005)
81,978	Pension Reserve	183,373
8,766	STACA Statutory Mitigation Account	7,566
1,062	Icelandic Banks Statutory Adjustment Account	807
(88,740)	**Total Unusable Reserves**	**(6,681)**

A summary of all reserves movements are shown below:

	Balance as at 31 March 2011 £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2012 £'000
General Fund	(11,475)	14,099	(15,084)	(12,460)
Property Maintenance Fund	(175)	147	-	(28)
Insurance Fund	(1,507)	109	-	(1,398)
Capital Fund	(6,070)	437	-	(5,633)
Pensions Reserve	81,978	772	100,623	183,373
Revaluation Reserve	(48,924)	1,756	(2,837)	(50,005)
Capital Adjustment Account	(138,129)	(16,568)	-	(154,697)
Financial Instruments Adjustment Account	6,507	(232)	-	6,275
STACA Statutory Mitigation Acct	8,766	(1,200)	-	7,566
Icelandic Banks Statutory Adjustment Account	1,062	(255)	-	807
Total	**(107,967)**	**(935)**	**82,702**	**(26,200)**

Usable Reserves

The General Fund Balances are further analysed as follows:

2010/11 £'000	Analysis as at 31 March	2011/12 £'000
	Earmarked Reserves	
(1,198)	Education - Devolved School Management	(1,253)
	Specific Departmental Reserves	
(1,386)	Central Services	(1,544)
(88)	Education	(298)
(310)	Environment & Infastructure	(492)
(1,625)	Social Work	(1,444)
(4,607)		(5,031)
(6,868)	Non-earmarked Reserve	(7,429)
(11,475)	**Total General Fund Reserve**	**(12,460)**

Note 32 Cash Flow

2010/11 £'000	Reconciliation to General Fund Surplus	2011/12 £'000
(23,096)	**Net (Surplus) or deficit on the provision of services**	**(15,084)**
	Adjustments to surplus or deficit on the provision of services for non cash movements	
(39,096)	Depreciation & impairment of fixed assets	(20,597)
11,202	Amortisation of capital grants	20,239
32,107	IAS 19 pension adjustments	(772)
4,267	Other non-cash items	4,427
86	Increase/(decrease) in inventories	356
4,347	Increase/(decrease) in debtors	896
(7,865)	(Increase)/decrease in creditors	9,334
(915)	(Increase)/decrease in provisions	671
4,133		**14,554**
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
73	Interest received	41
158	Interest element of finance lease rental receipts	158
(12,718)	Capital grants received	(19,309)
(1,522)	Other capital cash receipts	(2,750)
(14,009)		**(21,860)**
(32,972)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(22,390)**

Notes to the Core Financial Statements

Note 33

Impairment Losses

During 2011/12 SBC recognised a net impairment loss of £2.084m. This was principally due to a net downward revaluation of Social Work properties (£0.589m) and impairment of capital expenditure on Social Work repair adaptations (£0.412m). A net cost of £1.451m 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:

2010/11 £'000		2011/12 £'000
66	Cash held by officers	66
815	Bank current accounts	915
9,876	Short term deposits	4,654
10,757	**Total**	**5,635**

2010/11 £'000	2010/11 £'000			2011/12 £'000	2011/12 £'000
	(55,677)	Gross Charges Levied			(56,142)
5,955		Less:	Benefits	5,988	
(6,030)			Government Subsidy	(6,085)	
(75)				(97)	
4,961		Discounts		4,941	
630		Provision for bad debts		638	
-		Lump Sum Payment Discounts		-	
27		Miscellaneous			
	5,543				5,482
	(50,134)				**(50,660)**
	-	Community Charge collected			-
	(50,134)	**Total Income reflected in the Income and Expenditure Account**			**(50,660)**

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2011

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2011/12 £
A	16,685	6/9	11,123	722.67
B	12,652	7/9	9,840	843.11
C	6,609	8/9	5,875	963.56
D	5,636	9/9	5,636	1,084.00
E	6,073	11/9	7,423	1,324.89
F	4,386	13/9	6,335	1,565.78
G	3,930	15/9	6,550	1,806.67
H	422	18/9	844	2,168.00
Total	**56,393**		**53,626**	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(7,523)	
Estimated net income from a Council Tax of £1 for 2011/12			**£46,103**	

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. These charges were determined by Scottish Water and for 2011/12 the Band D charges were £182.16 for water and £211.41 for waste water. There is also a requirement to account separately for water charges collected and the payments made to the water authority. The total income due to Scottish Water based on 2011/12 is £15.068m and, after making a bad debt provision, the net amount projected to be paid is £14.833m.

Non-Domestic Rate Income Account

2010/11 £'000	2010/11 £'000			2011/12 £'000	2011/12 £'000
	(32,119)	Gross Rates Levied & Contribution in Lieu			(33,475)
8,205		Less:	Reliefs and Other Deductions	7,009	
308			Write-offs of uncollectable debts & allowance for impairment	318	
-	8,513		Interest paid on overpaid rates	-	7,327
	(23,606)				(26,148)
	(122)	Net General Fund expenditure on discretionary reliefs			(101)
	(23,728)	**Net Non-Domestic Rate Income**			**(26,249)**
	-	Adjustment to Previous Years National Non-Domestic Rates			**39**
	(23,728)	**Contribution to National Pool**			(26,210)
	44,989	**Distribution received from National Pool**			23,948
	(44,989)	**Income Credited to the Comprehensive Income & Expenditure Statement**			**(23,948)**

Notes to the Non-Domestic Rate Income Account

Note 1 Changes to Non-Domestic Rate Income Account

There has been a change in the distribution basis for Non-Domestic Rates from 2011/12. The amount of Non-Domestic Rate income distributed to the Council by the Scottish Government is now aligned to the amount collected by the council. The distribution in 2010/11 was based on population. Now the Revenue Support Grant (RSG) provided by the Scottish Government takes in to consideration the amount of Non-Domestic rates distributed to each Council, therefore the change of distribution methodology is reflected in both the amount of RSG and the Non-Domestic Rate values. This is reflected in the extract from the Comprehensive Income & Expenditure Statement (p22) shown below:

2010/11 £'000		2011/12 £'000
	Taxation and Non-Specific Grant Income	
(177,031)	Revenue Support Grant	(191,485)
(44,989)	Non-Domestic Rates Pool for Scotland	(23,948)
(50,134)	Council Tax	(50,660)
(11,202)	Capital Grants and Contributions	(20,239)
(283,356)		(286,332)

Note 2 Rateable Subjects at 1 April 2011

Classification	Number	Rateable Value £'000
Shops	1,261	20,009
Public Houses	96	1,349
Offices including Banks	846	7,434
Hotels, Boarding Houses, etc	141	3,501
Industrial and Freight transport	1,702	18,348
Leisure, Entertainment, Caravan sites, etc	918	4,963
Garages and Petrol Stations	227	1,794
Cultural and Sporting	129	778
Education and Training	109	9,588
Public Service	430	4,544
Communications	7	17
Quarries, Mines, etc	12	319
Petrochemical	5	1,391
Religious	294	1,219
Health and Medical	95	3,859
Care Facilities	102	1,960
Other (including advertising)	579	1,660
Undertakings	24	4,620
Total	**6,977**	**87,353**

Note 3 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2011/12 was:

- 42.6p for properties with a rateable value up to £35,000
- 43.3p for properties with a rateable value above £35,000

Trust Funds

The Council is trustee for more than 200 trusts and endowments. Of these 37 are registered for charitable status with the Office of the Scottish Charity Regulator (OSCR). The Comprehensive Income and Expenditure Account and Balance Sheet below show separately both those registered with OSCR and those that are not.

The accounting policies applied are those detailed in pages 10 to 20. The total trusts and endowments are consolidated as a subsidiary in the Council's Group Accounts.

The income on the Trust Funds represents both dividends from external investments (principally Government Stocks) and interest earned on balances invested in the Council's Loans Fund. These balances are shown under Current Assets in the Balance Sheet below.

During 2011/12 several assets previously held on SBC's balance sheet were identified as trust properties. This resulted in a NBV increase of £0.108m, held within Land and Buildings, being shown on the Trust Fund Balance Sheet at 31 March 2012.

Comprehensive Income & Expenditure Statement

2010/11 £'000		Charitable £'000	Other £'000	2011/12 Total £'000
	Income			
(22)	Dividends and Interest	(1)	(25)	(26)
(2)	Rents	-	(109)	(109)
(4)	Donations & Grants	-	(4)	(4)
	Expenditure			
1	Administration	-	5	5
22	Grants to Beneficiaries	-	26	26
36	Depreciation	16	40	56
31	**(Surplus) / Deficit for the Year**	**15**	**(67)**	**(52)**
(621)	(Surplus) b/f	(127)	(499)	(626)
(36)	Funding (from)/to Revaluation Reserve	(16)	(40)	(56)
-	Transfer to Capital Reserve	-	2	2
(626)	(Surplus) c/f	**(128)**	**(604)**	**(732)**

Trust Funds

Balance Sheet

2010/11 £'000		Charitable £'000	Other £'000	2011/12 Total £'000
	Non-current Assets			
1,592	Land and Buildings	223	1,313	1,536
27	Investments	6	21	27
5	Long term Loan	-	5	5
	Current Assets			
1,142	Capital Advances to the Loans Fund	51	1,093	1,144
623	Revenue Advances to the Loans Fund	116	603	719
-	Sundry Debtors	-	18	18
	Current Liabilities			
(2)	Sundry Creditors	-	(10)	(10)
3,387	**Net Assets**	**396**	**3,043**	**3,439**
	Financed by			
(626)	Revenue Reserve	(128)	(604)	(732)
(1,238)	Capital Reserve	(97)	(1,143)	(1,240)
(1,523)	Revaluation Reserve	(171)	(1,296)	(1,467)
(3,387)		**(396)**	**(3,043)**	**(3,439)**

David Robertson CPFA
Chief Financial Officer
24 September 2012

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 2012, for each of the funds. The accounting policies applied are those as set out in pages 10 to 20. The total Common Good Funds are consolidated into the Council's Group Accounts as subsidiaries.

The funds for Hawick, Jedburgh and Kelso have some investments under an external fund manager and all funds have both capital and revenue balances invested in the Council's Loans Fund.

The Common Good Financial Statements are prepared in line with the guidance published by LASAAC in December 2007.

During 2011/12 several assets previously held on SBC's balance sheet were identified as Common Good properties in Peebles, Jedburgh, Kelso, Lauder and Selkirk. This resulted in a NBV increase of £0.862m, held within Land and Buildings, being shown on the Common Good balance sheet at 31 March 2012.

Comprehensive Income and Expenditure Statement

Total		2011/12								
2010/11		Duns	Galashiels	Hawick	Jedburgh	Kelso	Lauder	Peebles	Selkirk	Total
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Income									
(238)	Fees and Charges	-	-	(88)	-	-	(18)	(55)	(62)	(223)
(31)	Investment Income	-	-	(6)	(22)	(4)	(1)	(2)	(1)	(36)
(127)	Grant Income	(2)	(2)	(6)	(1)	(1)	(5)	(48)	(4)	(69)
(396)		**(2)**	**(2)**	**(100)**	**(23)**	**(5)**	**(24)**	**(105)**	**(67)**	**(328)**
	Expenditure									
155	Property Costs	1	-	155	1	-	6	59	28	250
95	Depreciation	2	-	37	10	8	9	22	55	143
54	Administrative Costs	2	2	11	3	2	11	9	15	55
79	Donations and Contributions	-	-	12	19	-	-	59	10	100
383		**5**	**2**	**215**	**33**	**10**	**26**	**149**	**108**	**548**
(13)	**(Surplus) / Deficit for the year**	**3**	**-**	**115**	**10**	**5**	**2**	**44**	**41**	**220**
(1,175)	(Surplus) / Deficit b/f	(26)	(24)	(334)	(179)	(158)	(132)	(61)	(119)	(1,033)
(95)	Funding (from)/to Revaluation Reserve	(2)	-	(37)	(10)	(8)	(9)	(22)	(55)	(143)
250	Transfer (from)/to Capital Reserve	-	-	-	-	-	-	-	-	-
(1,033)		**(25)**	**(24)**	**(256)**	**(179)**	**(161)**	**(139)**	**(39)**	**(133)**	**(956)**

Common Good Funds

Balance Sheets

Total 2010/11 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2011/12								
	Non-current Assets									
6,667	Land & Buildings	8	-	2,601	435	711	709	712	2,211	7,387
-	Heritage Assets	-	-	3	-	-	-	-	1	4
7	Other Fixed Assets	-	-	-	-	-	-	2	-	2
963	**Investments**	-	-	145	713	96	-	-	-	954
11	**Long Term Loan to Third Party**	-	-	-	8	-	-	3	-	11
	Current Assets									
102	Sundry Debtors	-	-	38	4	-	14	18	10	84
522	Capital Advances to Loans Fund	-	-	53	6	1	97	316	49	522
1,019	Revenue Advances to Loans Fund	25	24	273	187	163	123	59	136	990
-	Inventories	-	-	-	-	-	-	-	-	-
	Current Liabilities									
(84)	Sundry Creditors	-	-	(52)	-	-	-	(41)	(12)	(105)
9,207	**Net Assets**	**33**	**24**	**3,061**	**1,353**	**971**	**943**	**1,069**	**2,395**	**9,849**

	Financed by									
(1,033)	Revenue Reserve	(25)	(24)	(256)	(179)	(161)	(139)	(39)	(133)	(956)
(1,691)	Capital Reserve	-	-	(337)	(742)	(100)	(97)	(366)	(49)	(1,691)
(6,483)	Revaluation Reserve	(8)	-	(2,468)	(432)	(710)	(707)	(664)	(2,213)	(7,202)
(9,207)		**(33)**	**(24)**	**(3,061)**	**(1,353)**	**(971)**	**(943)**	**(1,069)**	**(2,395)**	**(9,849)**

David Robertson CPFA
Chief Financial Officer
24 September 2012

Notes to the Common Good Fund

Capital Reserves

During the year there were a small number of movements on the capital reserves which are shown below. The movements are the result of the realisation of losses on the sale of investments.

Total 2010/11 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2011/12								
(1,057)	Balance at start of year	-	-	(337)	(742)	(100)	(97)	(366)	(49)	(1,691)
(1)	Realised (Gains)/Losses on Investments	-	-	(5)	(23)	(3)	-	-	-	(31)
9	Prior year (Gains)/Losses on Investments adjustment	-	-	-	-	-	-	-	-	-
(392)	Unrealised Gains on Investments	-	-	5	23	3	-	-	-	31
(250)	Transfer from Revenue Reserve	-	-	-	-	-	-	-	-	-
(1,691)	Balance at year end	**-**	**-**	(337)	(742)	(100)	(97)	(366)	(49)	**(1,691)**

Heritage Assets

This is the first 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 are no prior year figures to show and these figures form the first year for the future reporting of five year asset transactions.

	Hawick £'000	Selkirk £'000	Total £'000
Cost or Valuation at 31 March 2011	-	-	-
Additions	3	1	4
Disposals	-	-	-
Revaluations	-	-	-
Cost or Valuation at 31 March 2012	**3**	**1**	**4**

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.

Group Accounts

Introduction

The group accounts are required to be prepared under International Financial Reporting Standards (IFRS).

The Council use a range of service delivery vehicles to facilitate the discharge of their functions which, whilst technically independent, are effectively under the Council's control. Group accounts therefore report on the material extent and implications of the Council's involvement with:

- Subsidiaries
- Associates
- Joint ventures

and the exposure to risk that accompanies that involvement.

Group Interests

These fall into three categories:

Subsidiaries

These are entities in which the Council either:

- Controls the majority of equity capital or equivalent voting rights or
- Appoints the majority of the governing body or
- Exercises (or has the right to exercise) influence (i.e. gives direction which must be complied with) over the entity's operating and financial policies.

The Council has assessed its relationships with other entities and concluded that only Trust Funds and Common Good Funds, in respect of which the Council is sole trustee, are required to be treated as subsidiaries. Summary financial results for these appear on pages 79 to 87 respectively.

Associates

These are entities in which the Council can exercise a significant influence without support from other participants.

The Council has re-assessed its relationships with other entities and concluded that the following require to be treated as associates in 2011/12.

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Police Board
- Lothian and Borders Fire & Rescue Board

The inclusion of the group entities has a significant effect on the Council's single entity position on provision of services. Because of, principally, the Councils share of operating results of associates, the surplus of £15.084m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group surplus of £0.989m. Inclusion of pension liabilities for group entities has had the overall effect of turning a net asset of £26.2m in to a net liability of £237.9m. Group liability has increased substantially from £115.1m in 2010/11 to £237.9m in 2011/12 principally as a result of the increase in the group liabilities for Pensions.

Group Accounts

Joint ventures

These are entities in which the Council has an interest on a long-term basis and are jointly controlled by it and one or more other entities under a contractual or other binding arrangement. The Council has re-assessed its relationships with other entities and concluded that it was not involved in joint ventures during 2011/12.

The CODE requires the following accounts to be prepared together with appropriate notes:

- **Movement in Reserves Statement**: This statement summaries all movements in reserves.

- **Group Comprehensive Income and Expenditure Statement**: This account summarises the Group's Income and Expenditure for the year

- **Group Balance Sheet:** This statement sets out the overall financial position of the Group at 31 March 2012

- **Group Cash Flow Statement:** The Group Cash Flow Statement includes the cash flows of the Council and the Common Good Funds and Trusts. Cash receipts and payments that flow to and from the Council and its subsidiaries only (full group members) must be included. Cash flows to and from the Council to its associates are already included within the cash flow statement of the Council

The Group Accounts and Notes are set out on pages 79 to 87.

Group Movement in Reserves Statement

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	**Total Usable Reserves**	Unusable Reserves	Authority's share of reserves of subsidiaries and associates	**Total Group Reserve**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 01/04/2010	(10,128)	(3,669)	(49)	(1,568)	**(15,414)**	(32,459)	248,010	**200,137**
Movement in reserves during 2010/11								
(Surplus)/deficit on provision of services	(23,096)	-	-	-	**(23,096)**	-	(16,311)	**(39,407)**
Other Comprehensive Income & Expenditure	-	-	-	-	**-**	(38,290)	(13,833)	**(52,123)**
Total Comprehensive Income & Expenditure	(23,096)	-	-	-	**(23,096)**	(38,290)	(30,144)	**(91,530)**
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(20,236)	-	-	-	**(20,236)**	20,236	-	-
Impairment Losses (charged to the CI&E)	(14,282)	-			**(14,282)**	14,282	-	
Revaluation Gains/Losses	(574)	-	-	-	**(574)**	574	-	-
Capital grants and contributions applied	11,202	-	-	-	**11,202**	(11,202)	-	-
Employee - Statutory Adjustments	(729)	-	-	-	**(729)**	729	-	-
Profit/(loss) on sale of non current assets	(14)	(5,108)	-	-	**(5,122)**	5,122	(3)	**(3)**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	536	-	-	-	**536**	(536)	-	**-**
Net retirement benefits per IAS 19	16,717	-	-	-	**16,717**	(16,717)	-	**-**
Loans Fund principal repayments and Statutory premia	8,493	**-**	**-**	**-**	**8,493**	(8,493)	252	**252**
Statutory Provision relating to PPP	3,185	**-**	**-**	**-**	**3,185**	(3,185)	-	**-**
Capital Expenditure charged to General Fund balance	21	**-**	**-**	**-**	**21**	(21)	-	**-**
Employers contribution payable to Pension Fund	15,391	**-**	**-**	**-**	**15,391**	(15,391)	**-**	**-**
Net Transfers to or from other reserves	2,039	2,707	(126)	61	**4,681**	(3,389)	4,941	**6,233**
Increase/Decrease in 2010/11	**(1,347)**	**(2,401)**	**(126)**	**61**	**(3,813)**	**(56,281)**	**(24,954)**	**(85,048)**
Balance at 31/03/2011	**(11,475)**	**(6,070)**	**(175)**	**(1,507)**	**(19,227)**	**(88,740)**	**223,056**	**115,089**

Group Movement in Reserves Statement

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	**Total Usable Reserves**	Unusable Reserves	Authority's share of reserves of subsidiaries and associates	**Total Group Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31/03/2011	(11,475)	(6,070)	(175)	(1,507)	**(19,227)**	(88,740)	223,056	**115,089**
Movement in reserves during 2011/12								
(Surplus)/deficit on provision of services	(15,084)	-	-	-	**(15,084)**	-	13,429	**(1,655)**
Other Comprehensive Income & Expenditure	-	-	-	-	-	97,787	(14,164)	**83,623**
Total Comprehensive Income & Expenditure	(15,084)	-	-	-	**(15,084)**	97,787	(735)	**81,968**
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(19,453)	-	-	-	**(19,453)**	19,453	-	**-**
Impairment Losses (charged to CI&ES)	(1,342)	-	-	-	**(1,342)**	1,342	-	**-**
Revaluation Losses	(108)	-	-		**(108)**	108	-	
Capital grants and contributions applied	20,239	-	-	-	**20,239**	(20,239)	-	**-**
Icelandic Banks Statutory Adjustment	283	-	-	-	**283**	(283)		
Icelandic Loss Adjustment	416	-	-	-	**416**	(416)		
Employee - Statutory Adjustments	1,200	-	-	-	**1,200**	(1,200)		**-**
Profit/(loss) on sale of non current assets	(925)	(427)	-	-	**(1,352)**	1,352	(7)	**(7)**
Amount by which finance costs charged to the CI &ES are different in accordance with statutory requirements	204	-	-	-	**204**	(204)	-	**-**
Net retirement benefits per IAS 19	(14,099)	-	-	-	**(14,099)**	14,099	-	**-**
Loans Fund principal repayments and Statutory premia	12,173	-	-	-	**12,173**	(12,173)	68	**68**
Capital Expenditure charged to General Fund balance	253	-	-	-	**253**	(253)	-	**-**
Employers contribution payable to Pension Fund	13,327	-	-	-	**13,327**	(13,327)	**-**	**-**
Net Transfers to or from other reserves	1,931	864	147	109	**3,051**	(3,987)	41,755	**40,819**
Increase/Decrease in 2011/12	**(985)**	**437**	**147**	**109**	**(292)**	**82,058**	**41,081**	**122,848**
Balance at 31/3/2012	**(12,460)**	**(5,633)**	**(28)**	**(1,398)**	**(19,519)**	**(6,681)**	**264,137**	**237,937**

Group Comprehensive Income and Expenditure Statement

2010/11				2011/12		
Gross Expenditure	Income	Net Expenditure	Net Expenditure	Gross Expenditure	Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
108,397	(4,717)	103,680	Education	106,770	(4,067)	102,703
20,163	(16,711)	3,452	General Fund Housing Services	32,710	(29,127)	3,583
15,594	(1,395)	14,199	Cultural & Related Services	16,521	(1,266)	15,255
28,233	(2,407)	25,826	Environmental Services	19,384	(2,567)	16,817
23,751	(4,766)	18,985	Roads & Transport Services	20,091	(3,980)	16,111
6,209	(2,747)	3,462	Planning & Development Services	6,906	(2,969)	3,937
90,105	(16,219)	73,886	Social Work	89,765	(15,695)	74,070
23,088	(12,301)	10,787	Central Services	10,182	(3,236)	6,946
-	-	-	Corporate and Democratic Core	-	-	-
(27,977)	-	(27,977)	Non-Distributed Costs	2,249	-	2,249
1,815	-	1,815	Exceptional Items	-	-	-
383	(365)	18	Common Good	548	(292)	256
59	(6)	53	Trust Funds	87	(113)	(26)
10,248	-	10,248	Lothian & Borders Police Board	9,401	-	9,401
7,300	-	7,300	Lothian & Borders Fire Board	7,189	-	7,189
(30,299)	-	(30,299)	Share of Operating Results of Associates	(238)	-	(238)
277,069	**(61,634)**	**215,435**	**Net Cost of Services**	**321,565**	**(63,312)**	**258,253**
		(177)	Roads Trading Operation (Surplus)/Deficit (External)			(98)
			Other Operating Expenditure			
		6	(Gain)/Loss on Disposal of Assets			918
			Financing & Investment Income & Expenditure			
		12,084	Interest Payable & Similar Charges			12,226
		(429)	Interest Receivable & Similar Income			(392)
		25,842	Pensions Interest Costs			24,686
		(22,790)	Expected Return on Pension Assets			(24,422)
		267	Share of Associates Interest Payable			74
		(15)	Share of Associates Interest & Investment Income			(5)
		13,726	Share of Associates Pension Interest Cost & Expected Return on Pension Assets			14,103
			Taxation & Non specific Grant Income			
		(177,031)	Revenue Support Grant			(191,485)
		(44,989)	Non-Domestic Rates Pool for Scotland			(23,948)
		(50,134)	Council Tax			(50,660)
		(11,202)	Capital Grants and Contributions			(20,239)
		(39,406)	**(Surplus)/Deficit on Provision of Services**			**(989)**

Group Comprehensive Income and Expenditure Statement

2010/11				2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		(39,406)	**(Surplus)/Deficit on Provision of Services**			**(989)**
		2,249	(Surplus)/Deficit on revaluation of Property, Plant and Equipment			(2,909)
		(1,277)	(Surplus)/Deficit on revaluation of available for sale financial assets			(4)
		(46,802)	Actuarial (gains)/losses on pension assets/liabilities			128,549
		(45,830)	**Other Comprehensive Income and Expenditure**			125,636
		(85,236)	**Total Comprehensive Income and Expenditure**			**124,647**

Group Balance Sheet

Restated 2010/11 £'000		2011/12 £'000
	Property Plant and Equipment	
310,919	Other Land and Buildings	308,878
16,985	Vehicle, Plant, Furniture & Equipment	17,031
74,306	Infrastructure	75,110
5,006	Surplus Assets	5,870
50,382	Assets Under Construction	63,120
	Heritage Assets	975
614	Intangible Assets	593
-	Assets Held for Sale	-
990	Long Term Investments	981
415	Long Term Debtors	1,026
459,617	**Long Term Assets**	**473,584**
5,524	Short Term Investments	3,838
807	Inventories	1,163
32,520	Short Term Debtors	33,408
(6,892)	less Bad Debt Provision	(7,532)
10,757	Cash and Cash Equivalents	5,635
42,717	**Current Assets**	**36,512**
(6,281)	Short Term Borrowing	(3,390)
(58,368)	Short Term Creditors	(46,177)
(2,413)	Provisions	(1,742)
(67,062)	**Current Liabilities**	**(51,309)**
(164,852)	Long Term Borrowing	(172,216)
(61,894)	Deferred Liabilities	(59,778)
(523)	Finance Leases/Bonds	(349)
(421,281)	Pension Liability	(541,393)
339,303	Pension Asset	358,020
(235,652)	Investment in Associates	(277,425)
(5,462)	Capital Grants Receipts in Advances	(3,583)
(550,361)	**Long Term Liabilities**	**(696,724)**
(115,089)	**Net Liabilities**	**(237,937)**

Group Balance Sheet

Restated 2010/11 £'000	Financed by	2011/12 £'000
	Useable Reserves	
(6,070)	Capital Fund	(5,633)
(11,475)	General Fund Balance	(12,460)
(175)	Property Maintenance Fund	(28)
(1,507)	Insurance Fund	(1,398)
(8,006)	Share of Group and Associate Useable	(6,035)
	Unuseable Reserves	
(138,129)	Capital Adjustment Account	(154,697)
6,507	Financial Instruments Adjustment Account	6,275
(48,924)	Revaluation Reserve	(50,005)
81,978	Pension Reserve	183,373
8,766	STACA Statutory Mitigation Account	7,566
1,062	Icelandic Bank Statutory Adjustment Account	807
231,062	Share of Group and Associate Unuseable	270,172
115,089		**237,937**

The unaudited accounts were issued on 30 June 2012 and the audited accounts were authorised for issue on 30 September 2012.

David Robertson CPFA
Chief Financial Officer
24 September 2012

Group Cash Flow Statement

2010/11 £'000		2011/12 £'000	
(39,406)	**Net (Surplus) or deficit on the provision of services**	**(989)**	
20,492	Adjustments to net surplus or deficit on the provision of services for non cash movements	465	
(14,058)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(21,798)	
(32,972)	**Net Cash Flows From Operating Activities**		**(22,322)**
	Investing Activities		
28,044	Purchase of PP&E, investment property and intangible assets	34,343	
(5,123)	Proceeds from PP&E, investment property and intangible assets	(1,352)	
(1,414)	Other Receipts from Investing Activities	(2,816)	
21,507	**Net Cash Flows from Investing Activities**		**30,175**
	Financing Activities		
(6,732)	Cash receipts from short and long term borrowing	(7,526)	
1,669	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,745	
9,518	Repayments of short and long term borrowing	3,050	
4,455	**Net Cash Flows from Financing Activities**		(2,731)
(7,010)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**5,122**
3,747	Cash and Cash Equivalents at the beginning of the reporting period		10,757
10,757	Cash and Cash Equivalents at the end of the reporting period		5,635
(7,010)	Movement		**5,122**

Notes to the Group Accounts

Note 1 Group Comprehensive Income and Expenditure Statement

Reporting Authority Adjustments to align with IFRS

A number of adjustments are required to enable the details contained within the Council's Comprehensive Income and Expenditure Statement to align with the IFRS requirements for Group Accounting arrangements. These can be summarised as follows:

- The inclusion of the assets and liabilities (and associated income and expenditure) of the Common Good Funds and Trust Funds.
- All intra-group transactions have been removed from the Group Accounts as part of the consolidation process.

Effect of Consolidation

The overall effect of consolidation of the Group’s income and expenditure has no impact on the Council’s single entity surplus for the year as the share of subsidiaries’ and associates’ surpluses/deficits are appropriated to their relevant reserves.

Other

Other than the effect of the items detailed above, the information presented in the notes to the Council’s Core Financial Statements, set out in pages 35 to 67 are also valid for the Group Comprehensive Income and Expenditure Statement and are therefore not replicated here.

Note 2 Group Cash Flow

Reconciliation between the Group Income and Expenditure Statement and the revenue activities in the Group Cash Flow Statement.

2010/11 £'000	Reconciliation to General Fund Surplus	2011/12 £'000
(39,406)	**Net (Surplus) or Deficit on the Provision of Services**	**(989)**
	Adjustments to surplus or deficit on the provision of services for non cash movements	
(39,228)	Depreciation & impairment of fixed assets	(20,796)
11,202	Amortisation of capital grants	20,239
32,108	IAS 19 pension adjustments	(772)
20,742	Other non-cash items	(9,512)
84	Increase/(decrease) in inventories	356
4,351	Increase/(decrease) in debtors	896
(7,852)	(Increase)/decrease in creditors	9,383
(915)	(Increase)/decrease in provisions	671
20,492		**465**
	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	
126	Interest received	103
158	Interest element of finance lease rental receipts	158
(12,718)	Capital grants received	(19,309)
(1,624)	Other capital cash receipts	(2,750)
(14,058)		**(21,798)**
(32,972)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(22,322)**

Note 3 Associated Bodies

Within the Group Accounts the Council has included the following bodies as associates:

Borders Sport and Leisure Trust

This organisation manages the delivery of a range of sport and leisure facilities at a number of sites throughout the Borders, except in Jedburgh. The Council has three elected Councillors on the Trust's Board of fourteen members and therefore a 21.4% share of the net operating result and net assets has been consolidated.

In 2011/12 the Trust's net operating result was a surplus of £358,618. A 21.4% share results in £76,744 being consolidated.

The Trust's accounts can be obtained from the Trust, Unit 6, Tweed Mill, Dunsdale Road, Selkirk, TD7 5DZ.

Jedburgh Leisure Facilities Trust

This organisation manages the delivery of a range of sports and leisure facilities in Jedburgh. The Council has one Councillor on the Trust's Board of nine members, with a 11.1% share of the net operating result and the net assets being consolidated.

In 2011/12 the Trust's net operating result was a surplus of £2,307 of which £256 was consolidated.

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

Lothian and Borders Police Board

The Board is responsible for the provision of policing throughout Edinburgh, the Lothians and the Borders. The Council has two members on the Police Board which has a total membership of 18. The proportion taken into the Council's Group Accounts is based on the Council's share of the total requisitions paid by the constituent Councils, which in 2011/12 was 11.76%. The Board's net operating result in 2011/12 was a deficit of £81.130m and a share of 11.76% results in £9.540m being consolidated. At 31 March 2012 the Board have an overall net liability of £1,831.3m and a share of 11.76% results in £215.4m being consolidated.

Lothian and Borders Fire & Rescue Board

The Board is responsible for the provision of fire and rescue services throughout Edinburgh, the Lothians and the Borders. The Council has two members on the Fire and Rescue Board which has a total membership of 18. The proportion taken into the Council's Group Accounts is based on the Council's share of the total requisitions paid by the constituent Councils, which in 2011/12 was 18.16%. The Board's net operating result in 2010/11 was a deficit of £22.6m and a share of 18.16% results in £4.1m being consolidated. At 31 March 2012 the Board have an overall net liability of £336.4m and a share of 18.16% results in £61.1m being consolidated.

The accounts for the Police Board and Fire & Rescue Board can be obtained from the Treasurer, Finance Department, City of Edinburgh Council, Waverley Court, 2 East Market Street, Edinburgh, EH8 8BG.

Note 4 Subsidiaries

The Group Accounts include the Common Good Funds and Trust Funds where the Council is the sole trustee. This effectively consolidates 100% of the relevant Common Good and Trust Fund accounts, eliminating where appropriate intra group transactions.

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 years 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 roadworks, 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.

Glossary of Terms

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.

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: the amount for 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.

Glossary of Terms

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: 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.

Requisitions: the Council pays a contribution, known as a requisition, to the Lothian and Borders Joint Boards to cover the cost of Police and Fire and Rescue services provided by the Boards in the Council's area.

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 report to the members of Scottish Borders Council and the Accounts Commission for Scotland

We have audited the financial statements of Scottish Borders Council and its group for the year ended 31 March 2012. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash-Flow Statement, Council Tax income account, Non-Domestic Rate Income Account, Trust Funds, Common Good Funds, Group Accounts and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (the 2011-12 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 the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts on page 5, the Chief Financial Officer is responsible for the preparation of financial statements which 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 group's and the Council'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 statement of accounts to identify material misstatements or inconsistencies with the audited financial statements. 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 affairs of the group and of the Council as at 31 March 2012 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 2011-12; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government 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 Forward by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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.

DJ Watt
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
191 West George Street
Glasgow
G2 2LJ
28 September 2012