SCOTTISH BORDERS COUNCIL

STATEMENT OF ACCOUNTS

2009/10

Scottish Borders Council

Statement of Accounts 2009/10

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.

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; a Statement of Recommended Practice (the SORP).

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 SORP.

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 2010, and its income and expenditure for the year ended 31 March 2010.

Richard Webb BA (Hons) ACA
Chief Financial Officer
30 June 2010

Statement on the System of Internal Financial Control

1. This statement is given in respect of the Accounts for Scottish Borders Council and its group entities. As Chief Financial Officer for the Council, I acknowledge my responsibility for making sure that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

2. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

3. The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, committees and sub-committees, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, this includes:

   (a) Financial systems which include:
   - comprehensive budgeting systems
   - regular reviews by members of the Corporate Management Team of revenue and capital budgetary control reports which identify actual income and expenditure to date and compare projected outturn with approved budgets; the appropriate Council committees also consider these reports
   - setting targets to measure financial and other performance
   - clearly defined capital investment control guidelines

   (b) HR and Payroll system controls to make sure that staff remuneration and reimbursement payments are made correctly and on time

   (c) Procurement system controls to make sure that orders for goods and services are properly authorised and creditor system controls to make sure that payments made to suppliers are correct

   (d) Council Tax, Non-Domestic Rates and Debtor system controls to make sure that income due to the Council is correctly identified, collected and accounted for

   (e) Controls over the operation of computer systems and administrative procedures to make sure that secure systems are developed to meet business and accounting needs

   (f) Corporate Anti-Fraud Strategy, including the whistle-blowing policy and the fraud, theft or corruption response plan, which outline how employees and members of the public can voice concerns in relation to suspected fraud, theft or corruption and how this will be dealt with by the Council

4. The Council has an Internal Audit unit, which operates in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Internal Audit in Local Government. The Audit & Risk Manager (A&RM) reports directly to the Director of Resources. The A&RM reports directly to the Audit Committee and meets with them in private session twice per year and also has direct unimpeded access throughout the year to the Chief Financial Officer, Chief Executive and the Head of Legal & Democratic Services, who is the Council's nominated Monitoring Officer. The work of the Internal Audit unit is informed by an analysis of the risk to which the Council is exposed, and annual Internal Audit plans are based on this analysis. The Internal Audit plans are endorsed and approved by the Council's Audit Committee. The Committee meets four times each year at which the A&RM provides the Audit Committee with a report on Internal Audit activity in the Council. The Internal Audit Annual Report 2009/10 presented to the May meeting of the Audit Committee includes the A&RM's independent opinion on the adequacy and effectiveness of the systems of internal financial control, internal control and governance, and security control on computer network infrastructure.

5. My review of the effectiveness of the system of internal financial control is informed by:

   (a) The work of the Internal Auditors as described above

   (b) The work of professional accountancy staff within the Council

   (c) The External Auditor's reports

   (d) Progress with enhancements to the systems of internal financial control during the year including review of financial strategy, compilation of budgets that are consistent with Council Priorities and Business Plans, implementation of change programmes to achieve efficiency savings, review of treasury management policy and strategy, and improvements arising from implementation of audit recommendations

   (e) Directors' Assurance Statements on the standard of internal financial control within each department, which in turn are informed by similar assurances from their Heads of Service

   (f) An Assurance Statement from the former Chief Financial Officer, for the period 1 April 2009 to 31 March 2010 during which they were the appointed s.95 Officer

6. I was appointed as Chief Financial Officer with s.95 responsibility from 1 April 2010. Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems during the year ended 31 March 2010.

   However, I have noted that work in the following areas would further enhance the internal financial control environment to manage financial risks:

   (a) The ongoing implementation of:

   - Recommendations made by Internal Audit and External Audit with particular emphasis on prompt implementation of high priority recommendations

   - The regular review and compliance testing of Procedural Standing Orders, Financial Regulations and the Scheme of Delegation

   (b) A development project to review and re-design the business systems for significant financial processes such as Accounts Receivable and Accounts Payable and to fully document the re-engineered business processes

   (c) Development and full implementation of a new proactive approach to medium term financial planning to deal with expected funding pressures, and improvements to reporting tools to enhance financial management information

   (d) Financial awareness, training and development of best practice, from induction of new employees to financial management core competency for managers

   (e) Project management to deliver the Council's ambitious capital financial plans

   (f) Full implementation of the Housing and Council Tax Benefits action plan to demonstrate continuous improvement of the performance management of the service

   (g) Full implementation of Passenger Transport action plan to improve business processes and internal controls on orders for transport, contracts, delivery of service by the operator, operator invoice authorisation, internal billing and management control reports

   (h) Continued implementation of the Council's approved Corporate Procurement Strategy

Statement on the System of Internal Financial Control

7. My opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of the Group's internal financial control systems. My review of the effectiveness of the system of internal financial control of the Joint Boards and Trusts that are included in the Group Accounts is informed by:

   (a) The Treasurers' Assurance Statements on the standard of internal financial control at Lothian and Borders Fire & Rescue Board and Lothian and Borders Police Board

   (b) The External Auditor's report on the accounts of the Borders Sports and Leisure Trust; and

   (c) The Independent Examiner's Report on the accounts of the Jedburgh Leisure Trust

Richard Webb BA (Hons) ACA
Chief Financial Officer
30 June 2010

Introduction

The SORP incorporated a requirement to account for PPP/PFI contracts on an International rather than the UK accounting standard basis. This has resulted in the PPP Schools being recognised as a fixed asset on the Council's balance sheet with a corresponding liability for the financing provided by the PFI operator. The SORP also required a change in the way that the NNDR balances were recognised within the balance sheet. Further details about the changes that have been reflected in the 2009/10 Statement of Accounts are explained in detail on pages 24 and 25.

In terms of presentation, the 'Core Financial Statements' appear first, followed by the related notes. The supplementary statements, with notes on each where appropriate, follow.

The Revenue Budget for 2009/10

The original budget for 2009/10 was approved by the Council in February 2009 and planned net expenditure totalled £265.1m. Revenue Support Grant and our share of the Non-Domestic Rates Pool from the Scottish Government totalled £215.0m (81% of total funding) and included £1.5m in recognition of the 'Council Tax freeze'. After allowing for a contribution from the sale of surplus assets of £0.8m, the Council planned to raise £49.3m through the Council Tax. Each £1 was estimated to raise £45,519, and again a 'Band D' Council Tax of £1,084 was levied. After no increase, the Council Tax for Scottish Borders continued to be among the lowest in mainland Scotland in 2009/10. The original 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 virement approved. Due to this, the final budget for the year was £267.1m.

Revenue Outturn 2009/10

Net operating expenditure of £269.3m, on a UK GAAP basis, led to a deficit on the Income and Expenditure Account of £3.982m. Statutory adjustments of £3.161m are reversed out in the Statement of Movement on General Fund Balance. Expenditure amounting to £1.0m was funded by earmarked balances. When the relevant adjustments are made, actual outturn was £266.9m against a final budget of £267.1m.

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 2010 is

2008/09 £'000		2009/10 £'000
	Analysis of the General Fund Balance	
(1,273)	Devolved School Management	(1,144)
(4,037)	Specific Departmental Reserves	(3,111)
(5,310)	**Earmarked element**	**(4,255)**
(5,639)	Non-earmarked element	(5,873)
(10,949)	**Total**	**(10,128)**

The net decrease in the General Fund Reserve is £0.821m.

The Council's Financial Strategy identifies the optimum level of 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 2% - 4% of net revenue expenditure (between £5m and £10m at 2008/09 levels). The Reserve not earmarked for specific purposes at £5.873m is within that range. £4.255m of the total Reserve is earmarked for specific purposes and will be spent either in 2010/11 or future financial years.

Foreword by the Chief Financial Officer

Significant Trading Operation

As the Council's only significant trading operation, the roads trading operation (SBc Contracts) has a statutory obligation to at least break even over rolling three-year periods. During 2009/10 a net surplus of £0.212m was achieved and over the three-year period the surplus totalled £0.837m.

Capital Expenditure and Debt Outstanding

In 2009/10 the Council incurred capital expenditure totalling £44.9m. An analysis of capital expenditure and its financing can be found on page 32. This analysis also includes £28.4m in relation to the assets now recognised on the Council's balance sheet in accordance with the SORP change for accounting for PPP/PFI contracts. 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 £195.2m at 31 March 2010 and there was a further improvement in the average rate of interest paid on outstanding debt to 4.66%, a reduction of 0.31% from 2008/09. During the year, £5m of temporary borrowing was undertaken towards the end of the 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 2009/10 three repayments were received from Heritable Bank which totalled £1.764m (34.98% of the claim of £5m). More details about these repayments and the anticipated future recovery levels of these deposits can be found in the financial instrument disclosure notes on pages 51 to 61.

Group Accounts

The Group Accounts on pages 77 to 87 detail the Council's interests in any subsidiaries, associates and joint ventures. There are significant pension liabilities relating to both the Police Board and the Fire & Rescue Board which in the very long term will fall on the constituent Councils through the requisition mechanism. From 1 April 2010 the Scottish Government will take on certain elements of the liabilities for Police and Fire & Rescue pensions.

Long Term 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, with the schools at Duns and Eyemouth coming into use in 2008/09 and Earlston in 2009/10. Over the period 2008/09 to 2039/40 the Council has an obligation to pay a unitary charge totalling £302m. It is estimated that the agreement will attract around £107m in 'Level Playing Field Support' from the Scottish Government.

Pensions

In terms of the Council's Pension Fund and the requirements of the Accounting Code of Practice in relation to FRS 17 (Accounting for Retirement Benefits), the 2009/10 accounts contain full accounting entries in the core financial statements, together with detailed associated notes. The main principle behind FRS 17 is that the Council must account for pensions when it is committed to give them and not merely when they are paid. These notes are set out on pages 43 to 47.

Council and Group Balance Sheets

The net liabilities of Scottish Borders Council total £26.473 million as at 31 March 2010 (2008/09 restated net asset £51.691million). Subsequent to the incorporation of subsidiaries and associates, the Group Balance Sheet shows net liabilities of £282.256 million as at 31 March 2010 (restated net liabilities of £112.115 million in 2008/09). 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.

Foreword by the Chief Financial Officer

The Council is actively reviewing its Fixed Asset register to determine whether certain assets could be reclassified as belonging to the Common Good.

The 2009/10 Local Government Finance Settlement and the Council's budget process provided resources required to meet the Council's net service expenditure in 2009/10. It is expected that future settlements, aligned with the Council's budget process, which drives through efficiency savings, will provide sufficient resources to finance future liabilities. It is therefore considered appropriate to adopt a going concern basis for the preparation of these Financial Statements.

Thanks

My thanks are due to all staff, especially in Finance, for their hard work and commitment during the year.

Richard Webb BA (Hons) ACA
Chief Financial Officer
30 June 2010

Accounting Policies

Code of Practice

The general practices adopted in compiling the accounts are those recommended in the Code of Practice on Local Authority Accounting in the United Kingdom 2009: the SORP issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) SORP Board. This statement seeks to identify the accounting principles that underlie the accounts and to indicate any significant variations to past practice.

General Principles

The accounting statements are prepared on an accruals basis following the historic cost convention, modified by the revaluation of certain categories of assets. Revenue and capital accounts are maintained on a receipts and payments basis throughout the year and are converted to an income and expenditure basis at the year-end by including outstanding transactions relating to that accounting year.

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 Authority 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 stocks 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.

Reserves

- A **Repairs and Renewals Fund** is operated for corporate building maintenance as provided for by Schedule 3 (22) to the Local Government (Scotland) Act 1975.

- An **Insurance Fund** is operated in terms of Schedule 3 (22) to the Local Government (Scotland) Act 1975. Appropriate premiums are charged to the Revenue Accounts.

- A **Capital Fund** is operated as provided for by Schedule 3 (22) to the Local Government (Scotland) Act 1975. Developer contributions and capital receipts received are credited to the fund.

- A **Pensions Reserve** ensures that accounting for retirement benefits in line with Financial Reporting Standard 17 has a neutral effect on Council Tax.

- The **General Fund Reserve** represents the accumulated net surpluses on the General Fund. Part of this reserve is, from time to time, earmarked for specific purposes.

Accounting Policies

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council.

Government Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Grants and subsidies have been credited to the appropriate revenue accounts and accruals have been made in these accounts for balances known to be receivable for the period to 31 March 2010.

Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure.

Capital Grants and Contributions have been credited to a Grants and Contributions Deferred Account and subsequently credited to the accounts in line with the relevant depreciation.

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 Income and Expenditure Account, 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 Income and Expenditure Account, with appropriate notes, after dealing with all items within the ordinary activities of the Council.

- **Prior period 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.

Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council [e.g. purchased software] is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the asset to reflect the pattern of consumption of benefits. The amortisation basis is reviewed on an annual basis to ensure any impairment is identified.

Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets 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 secures but does not extend the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to revenue as 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. Items below these amounts are charged to the Income and Expenditure Account. 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. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land - existing use value
- Non specialised operational properties – existing use value
- Specialised operational properties - depreciated replacement cost
- Surplus assets and investment properties – market value
- Vehicles, plant and equipment and infrastructure assets are brought into the accounts at cost. Existing assets are shown at a written down historic cost

Assets included in the Balance Sheet at current 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 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 by:

- where attributable to the clear consumption of economic benefits — the loss is charged to the relevant service revenue account;
- otherwise — written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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.

Receipts are appropriated to the Capital Fund from the Statement of Movement on the General Fund Balance. 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 Statement of Movement on the General Fund Balance.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Within the Income and Expenditure Account each Service has been charged with depreciation for its use of assets in the provision and delivery of services. The following bases have been adopted for the depreciation of fixed assets within the Balance Sheet. Depreciation is charged annually in equal instalments over an asset's life.

- Land and Buildings
    - Land is not depreciated
    - Buildings including industrial properties are written off over their estimated life.

- Plant and Vehicles/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.

Accounting Policies

- Non Operational Assets
  - Assets under construction are valued at cost and no depreciation is charged on them until they become operational.
  - Assets which are identified as surplus to operational requirements are transferred to non-operational assets. At this point they are revalued to their expected net disposal proceeds. No further depreciation charges are made to these assets.

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

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.

Finance Leases

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. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

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:
An asset held by the Council for use under operating leases is recorded as a fixed asset and depreciated over its 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 fixed assets 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 fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

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

Fixed 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 Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – major replacement costs are recognised as fixed assets on the Balance Sheet.

Trust Funds, Endowments and Common Good Funds

These are managed by the Council under the terms and conditions of the original Trusts and details are given on pages 73 to 76.

Valuation of Stock

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

Overhead and Support Services

Central Support Services and Office Accommodation Costs have been recharged to the revenue and capital accounts of the Council on the following bases:

- Employees – Time spent
- Office Accommodation – Floor area occupied
- Other Services – Recorded usage.

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 Best Value Accounting Code of Practice 2008 (BVACOP). 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 BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

Accounting Policies

Retirement 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 provided 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 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 revenue account 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 5.5% (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 pensions 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 Income and Expenditure Account 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account
- 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 Net Operating Expenditure in the Income and Expenditure Account
- 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 the Net Cost of Services in the 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 Statement of Total Recognised Gains and Losses
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund

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 Statement of Movement on the General Fund Balance 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.

Improvement Grants made to Third Parties

Any such expenditure is written off to the Income and Expenditure Account as it is incurred.

VAT

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

Provisions and Contingent Liabilities

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.

Accounting for Financial Instruments

Financial assets and liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of the instrument. The accounting treatment and disclosure of financial instruments is compliant with the SORP which includes the principles introduced by FRS25, FRS26 and FRS29. Statutory Guidance requires the reversal of some of the accounting entries through the Statement of Movement on the General Fund Balance, thus neutralising any effect on Council Tax.

Financial Liabilities:

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account 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 Income and Expenditure Account is the amount payable for the year in the loan agreement.

Accounting Policies

Premiums on premature debt redemption outstanding at 31 March 2007 (£5.618m) were written off through the General Fund Balance on 1 April 2007 in accordance with the SORP. However Statutory Guidance has been issued by the Scottish Government to ameliorate this effect by crediting the Statement of Movement on the General Fund Balance and debiting the Financial Instruments Adjustment Account. The annual premium charge will be written down from the Financial Instruments Adjustment Account.

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 Income and Expenditure Account 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 and interest receivable. Interest credited to the Income and Expenditure Account 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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income & Expenditure Account.

Any soft loans issued by the Council (those carrying a below market rate of interest) were re-measured at fair value on 1 April 2007 to show the effect on the loan had a market rate of interest been applied. For soft loans prior to 1 April 2008 the Scottish Government has issued Statutory Guidance to ameliorate this effect.

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.

Income and Expenditure Account

The format of this account has been changed to reflect the Best Value Accounting Code of Practice (BVACOP) and service analysis is shown at Note 2.

2008/09 As Restated Net Expenditure £'000		2009/10 Gross Expenditure £'000	2009/10 Income £'000	2009/10 Net Expenditure £'000	Notes
98,276	Education	106,702	(4,751)	101,951	2
8,213	General Fund Housing Services	30,014	(27,007)	3,007	2
13,524	Cultural & Related Services	14,946	(1,506)	13,440	2
17,825	Enviromental Services	21,314	(3,204)	18,110	2
14,991	Roads & Transport Services	20,813	(5,792)	15,021	2
3,027	Planning & Development Services	8,343	(2,983)	5,360	2
56,899	Social Work	81,205	(15,567)	65,638	2
7,909	Central Services	10,033	(1,864)	8,169	2
3,677	Non-Distrubuted Costs	1,368	-	1,368	
2,112	Exceptional Items	307	-	307	
226,453	**Services provided by the Council**	**295,045**	**(62,674)**	**232,371**	
11,670	Police	12,037	-	12,037	2
9,039	Fire & Rescue	8,646	-	8,646	2
247,162	**Net Cost of Services**	**315,728**	**(62,674)**	**253,054**	**2**
(267)	(Gain)/loss on disposal of assets			32	
(74)	Roads Trading Operation (surplus)/deficit			294	**6**
11,958	Interest payable and similar charges			11,899	
(1,824)	Interest receivable			(569)	
20,440	Interest costs on pensions			18,910	**28**
(18,972)	Return on pension assets			(14,281)	**28**
258,423	**Net Operating Expenditure**			**269,339**	
	Income				
(158,346)	Revenue Support Grant			(170,045)	
(42,287)	Non-Domestic Rates Pool for Scotland			(46,076)	
(48,770)	Council Tax			(49,236)	
(249,403)	**Total Income**			**(265,357)**	
9,020	**(Surplus) or deficit for the year**			**3,982**	

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:-

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

This reconciliation statement summarises the differences between the surplus or deficit on the Income and Expenditure Account and the General Fund Balance.

2008/09 As Restated £'000		2009/10 £'000
(14,279)	**Opening balance on General Fund**	**(10,949)**
9,020	(Surplus) or deficit on Income and Expenditure Account for the year	3,982
(5,690)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (analysed on page 18)	(3,161)
(10,949)	**Closing balance on General Fund**	**(10,128)**

2008/09 £'000		2009/10 £'000
	Analysis of the General Fund Balance	
(1,273)	Devolved School Management	(1,144)
(4,037)	Specific Departmental Reserves	(3,111)
(5,310)	**Earmarked element**	**(4,255)**
(5,639)	Non-earmarked element	(5,873)
(10,949)	**Total**	**(10,128)**

Statement of Movement on the General Fund Balance

The following statement provides an explanation of the items forming the reconciliation between the Income and Expenditure Account and the General Fund Balance shown on page 17.

2008/09 As Restated £'000		2009/10 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance :-	
(18,307)	Depreciation and impairment of assets	(21,531)
2,438	Government Grants Deferred amortisation matching depreciation and impairments	3,229
267	Net (loss) / gain on disposal of fixed assets	(32)
(2,750)	Amounts by which finance costs calculated in accordance with the SORP are different from the finance costs calculated in accordance with statutory requirements	558
(12,874)	Net charges made for retirement benefits in accordance with FRS17	(12,740)
(31,226)		**(30,516)**
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on General Fund Balance :-	
10,178	Statutory provision for repayment of debt	11,219
255	Capital expenditure charged to General Fund Balance	189
13,371	Employer's contribution payable to the pension fund	13,828
23,804		**25,236**
	Adjustment for transfers to or from General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance :-	
1,732	Net transfers to or (from) other reserves	2,119
1,732		**2,119**
(5,690)	**Net adjustment to be debited/(credited) to the General Fund**	**(3,161)**

Statement of Total Recognised Gains and Losses

This statement brings together all of the gains and losses of the Council for the year and shows the aggregate decrease in its net worth. In addition to the surplus on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and actuarial gains relating to the Pension Fund.

2008/09 As Restated £'000		2009/10 £'000
9,020	(Surplus) or deficit on the Income and Expenditure Account	3,982
(34,543)	(Surplus) or deficit arising on revaluation of assets	(10,487)
26,812	Actuarial (gains) or losses on Pension Fund assets and liabilities	84,683
(450)	Any other (gains) and losses	(14)
839	**Total recognised (gains) / losses for the year**	**78,164**

Reconciliation of Prior Period Adjustment Effect on the Statement of Total Recognised Gains and Losses

	2008/09 £'000	2009/10 £'000
Total recognised losses	710	78,164
Prior period adjustment - see note 1	129	
Total losses recognised since published statement of accounts 2008/09	839	

Balance Sheet

This section of the Balance Sheet summarises all of the assets that the Council owns and the liabilities that it owes to others. The Balance Sheet for 2009 has been restated as explained in note 1.

2009 As Restated £'000	Net Assets	2010 £'000	2010 £'000	Notes
907	Intangible assets		1,012	18
	Tangible fixed assets			
	Operational assets			
263,374	Land and buildings	318,754		15
16,759	Vehicles, plant, furniture and equipment	17,370		15
67,692	Infrastructure assets	72,240		15
	Non-operational assets			
43,584	Assets under construction	45,060		15
7,176	Surplus assets, held for disposal	6,980		15
399,492			460,404	
2,879	Long term debtors		391	
402,371	**Total Long Term Assets**		**461,807**	
	Current assets			
825	Stores, materials and work-in-progress	723		
28,736	Debtors	30,654		
(6,330)	less Bad debt provision	(6,706)		
28,865	Short term deposits	9,483		
3,597	Cash and bank	247		
55,693		34,401		
	Current liabilities			
(3,435)	Provisions within 12 months	(1,498)		22
(45,199)	Creditors	(41,418)		
(7,271)	Leasing Liability payable within 12 months	(1,575)		16
(3,361)	Borrowings repayable within 12 months	(8,276)		20
(2,990)	Due to Trust and Common Good Funds	(2,789)		
(1,208)	Due to Pension Fund	(938)		
(63,464)		(56,494)		
(7,771)	**Net Current Assets**		**(22,093)**	
394,600	**Total assets less current liabilities**		**439,714**	
(165,104)	Long term borrowing		(165,010)	20
(124)	Provisions		-	22
(36,743)	Long term leasing liability		(63,601)	16
(4,406)	Government Grants & Contributions Unapplied		(3,325)	
(65,885)	Government Grants & Contributions Deferred		(80,011)	
(283,494)	Pension Liability	(467,812)		28
212,847	Pension Asset	313,572		28
			(154,240)	28
51,691	**Net Assets/(Liabilities)**		**(26,473)**	

Balance Sheet

This section of the Balance Sheet shows how the net assets of the Council are financed.

2009 As Restated £'000	Financed by	2010 £'000	2010 £'000	Notes
(10,949)	General Fund Balance	(10,128)		**25**
(39)	Corporate Repairs & Renewals Fund	(49)		
(1,660)	Insurance Fund	(1,568)		**21**
(7,248)	Capital Fund	(3,502)		**26**
(19,896)			(15,247)	
70,647	Pensions Reserve		154,240	**28**
50,751			**138,993**	
(40,382)	Revaluation Reserve	(50,351)		**26**
(71,573)	Capital Adjustment Account	(71,124)		**26**
9,513	Financial Instruments Adjustment Account	8,955		
(102,442)			(112,520)	
(51,691)			**26,473**	

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 28 September 2010.

Richard Webb BA (Hons) ACA
Chief Financial Officer
28 September 2010

Cash Flow Statement

This statement shows where the Council's money came from during the year and how it was spent.

2008/09 £'000		2009/10 £'000	2009/10 £'000	Notes
	Revenue Activities			
	Cash Outflows			
153,786	Cash paid to and on behalf of employees	160,462		
140,453	Other operating cash payments	139,387		
21,044	Housing Benefit paid out	24,008		
315,283			323,857	
	Cash Inflows			
(62,953)	Council Tax receipts	(59,442)		
(2)	Community Charge receipts	-		
(42,287)	Distribution from Non-Domestic Rates Pool	(46,076)		
(159,169)	Revenue Support Grant	(169,557)		
(25,679)	DWP Benefits Subsidies	(29,119)		
(7,377)	Other government grants	(6,079)		**35**
(15,817)	Goods & services	(15,066)		
(17,355)	Other cash receipts	(14,779)		
(330,639)			(340,118)	
(15,356)	**Net Cash Outflow / (Inflow) from Revenue Activities**		**(16,261)**	**32**
	Servicing of Finance			
	Cash Outflows			
9,087	Interest paid	8,794		
338	Interest element of finance lease rental payments	2,998		
9,425		11,792		
	Cash Inflows			
(2,649)	Interest received	(139)		
(165)	Interest element of finance lease rental receipts	(142)		
6,611			11,511	
	Capital Activities			
	Cash Outflows			
36,446	Purchase of fixed assets	42,147		
	Cash Inflows			
(614)	Sale of fixed assets	(548)		
(20,379)	Capital grants received	(14,628)		
(450)	Other capital cash receipts	-		
15,003			26,971	
6,258	**Net Cash (Inflow) / Outflow before Financing**		**22,221**	
	(carried forward to next page)			

Cash Flow Statement

2008/09 £'000		2009/10 £'000	2009/10 £'000	Notes
6,258	**Net Cash (Inflow) / Outflow before Financing**		**22,221**	
	Management of Liquid Resources			
(12,500)	Net increase/(reduction) in short term deposits		(19,764)	
(113)	Net increase/(reduction) in other liquid resources		278	
	Financing			
	Cash Outflows			
11,976	Repayments of amounts borrowed	166		
78	Premiums on premature repayment of loans	218		
302	Capital element of finance lease rental payments	7,591		
12,356		7,975		
	Cash Inflows			
(6,706)	New loans raised	(5,000)		
-	Loans discount received	(26)		
(110)	Capital element of finance lease rental receipts	(2,334)		
5,540			615	
(815)	**Net Cash Outflow / (Inflow) after Financing**		**3,350**	**33**

Note 1 Restatement of 2008/09 Balance Sheet

The 2009 SORP required the following changes to be made to the 2008/09 comparatives figures.

PPP/PFI Contracts

The 2009 (SORP) incorporated a requirement to account for PPP/PFI contracts on an International rather than UK accounting standard basis. This has resulted in the PPP Schools being recognised as a fixed asset on the Council's balance sheet with a corresponding liability for the financing provided by the PFI operator. The fixed assets recognised on the balance sheet have been depreciated in the same way as property, plant and equipment owned by the Council.

The unitary charge payable to the PFI operator in 2008/09 has now been restated into the following elements:

- Principle repayment of finance liability
- Interest charges on the finance liability
- Service charges

The restatements to the 2008/09 results have been detailed below and also include a reclassification of £3.050m in respect of the old high schools from Operational Land & Buildings to Assets Awaiting Disposal.

Balance Sheet	2008/09 £'000	Adjustment £'000	As Restated 2008/09 £'000
Land & Buildings	222,552	40,822	263,374
Surplus Assets, held for disposal	4,126	3,050	7,176
Leasing liability payable within 12 months	-	(7,271)	(7,271)
Long term leasing liability	(13)	(36,730)	(36,743)
Capital Adjustment Account	(71,702)	129	(71,573)

Income and Expenditure	2008/09 £'000	Adjustment £'000	2008/09 As Restated £'000
Education	98,453	(177)	98,276
Net Cost of Services	247,339	(177)	247,162
Interest payable & similar charges	11,652	306	11,958
Deficit for the year	8,891	129	9,020

Statement of Movement on the General Fund Balance	2008/09 £'000	Adjustment £'000	2008/09 As Restated £'000
Depreciation and impairment of assets	(18,100)	(207)	(18,307)
Finance costs	(2,828)	78	(2,750)
Net Adjustment to the General Fund	(5,561)	(129)	(5,690)

Notes to the Core Financial Statements

Note 1 Restatement of 2008/09 Balance Sheet (continued)

National Non Domestic Rates (NNDR)

The 2009 SORP has confirmed that the collection of NNDR by Councils is an agent activity on behalf of central government. Therefore the Balance Sheet should not separately include NNDR arrears, the impairment allowance for doubtful debts, or amounts due to/from the NNDR pool. Instead these balances are to be consolidated into a debtor or creditor for amounts due to or from central government. There is no effect on the Net Assets of the Council.

At 31 March 2009, the Council has the following amounts in its Balance Sheet relating to NNDR collection:

	£'000
Arrears less advanced payments	1,535
Impairment Allowance for doubtful debts	(1,518)
Amount due from the national pool	1,568
	1,585

Balance Sheet	2008/09 £'000	Adjustment £'000	As Restated 2008/09 £'000
Sundry Debtors	30,340	(1,604)	28,736
Bad debt provision	(7,848)	1,518	(6,330)
Sundry Creditors	(45,285)	86	(45,199)

Other Restatements

The short term and long term borrowing figures for 2008/09 have been restated to show accrued interest payable as payable within 12 months rather than with the long term borrowing to which the interest relates. £3.195m has been transferred from long term borrowing to borrowings repayable within 12 months.

Unapplied Developer Contributions amounting to £4.406m have been reclassified to Long Term Creditors which has resulted in a similar decrease to the Council's Net Assets.

Note 2 Service Analysis

The Service Analysis is provided on the BVACOP basis and shows further detail of the Income & Expenditure Account (page 16).

Net Expenditure 2008/09 £'000	Education	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
29,019	Budgets Devolved to Primary Schools	30,771	(222)	30,549
32,374	Budgets Devolved to Secondary Schools	32,908	(312)	32,596
6,644	Schools Strategic Management	10,731	(562)	10,169
6,194	Pre-Primary Education	5,198	(102)	5,096
280	Facilitating School Improvement	118	-	118
12,072	Supporting Special Education Needs	12,610	(26)	12,584
6,448	School & Pupil Support	8,688	(2,380)	6,308
3,537	Strategic Management of Non-School Services	3,642	(1,038)	2,604
1,708	Community Learning	2,036	(109)	1,927
98,276	**Total**	**106,702**	**(4,751)**	**101,951**

Net Expenditure 2008/09 £'000	General Fund Housing Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
1,183	Housing Strategy	1,751	(128)	1,623
76	Housing Advice	31	-	31
104	Private Sector Housing Renewal	1,246	(1,220)	26
828	Homelessness	2,006	(1,185)	821
707	Rent Allowances	24,044	(23,409)	635
(33)	Housing Benefit Administration	935	(1,065)	(130)
1	Other Council Property	1	-	1
5,347	Supporting people	-	-	-
8,213	**Total**	**30,014**	**(27,007)**	**3,007**

Notes to the Core Financial Statements

Note 2 Service Analysis (continued)

Net Expenditure 2008/09 £'000	Cultural and Related Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
2,786	Culture & Heritage	3,789	(708)	3,081
2,155	Library Service	2,233	(64)	2,169
8,351	Recreation & Sport	8,694	(711)	7,983
232	Tourism	230	(23)	207
13,524	**Total**	**14,946**	**(1,506)**	**13,440**

Net Expenditure 2008/09 £'000	Environmental Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
1,329	Cemetery, Cremation & Mortuary Services	1,808	(525)	1,283
43	Coast Protection	47	(2)	45
1,808	Environmental Health	3,080	(454)	2,626
268	Flood Defence & Land Drainage	318	(12)	306
684	Trading Standards	680	(47)	633
2,551	Other Cleaning	2,355	(83)	2,272
7,323	Waste Collection	7,511	(914)	6,597
3,819	Waste Disposal	5,515	(1,167)	4,348
17,825	**Total**	**21,314**	**(3,204)**	**18,110**

Net Expenditure 2008/09 £'000	Roads and Transport Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
9,623	Roads	12,367	(2,463)	9,904
1,716	Network & Traffic Management	1,941	(279)	1,662
412	Parking Services	413	(216)	197
3,240	Public Transport	6,092	(2,834)	3,258
14,991	**Total**	**20,813**	**(5,792)**	**15,021**

Net Expenditure 2008/09 £'000	Planning and Development Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
395	Building Control	1,087	(736)	351
1,014	Development Control	1,565	(721)	844
1,037	Planning Policy	1,105	(115)	990
581	Economic Development	4,586	(1,411)	3,175
3,027	**Total**	**8,343**	**(2,983)**	**5,360**

Note 2 Service Analysis (continued)

Net Expenditure 2008/09 £'000	Social Work	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
12,263	Children & Families	13,533	(641)	12,892
26,174	Older People	39,339	(8,998)	30,341
4,452	People with Physical or Sensory Difficulties	6,324	(1,314)	5,010
10,974	People with Learning Difficulties	17,321	(2,870)	14,451
2,105	People with Mental Health needs	2,485	(308)	2,177
170	People with Addiction / Substance Misuse	163	(3)	160
-	Services to Asylum Seekers	-	-	-
176	Criminal Justice Social Work Services	1,598	(1,397)	201
585	Service Strategy	442	(36)	406
56,899	**Total**	**81,205**	**(15,567)**	**65,638**

Net Expenditure 2008/09 £'000	Central Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
	Corporate & Democratic Core			
1,044	Democratic Representation & Management	965	-	965
3,942	Corporate Management	4,353	(204)	4,149
4,986		**5,318**	**(204)**	**5,114**
	Central Services to the Public			
1,924	Local Tax Collection	2,998	(1,045)	1,953
203	Registration of Births, Deaths & Marriages	424	(170)	254
190	Elections	206	(2)	204
121	Emergency Planning	124	(5)	119
698	General Grants, Bequests & Donations	620	-	620
(4)	District Courts	17	(17)	-
(209)	Licencing	326	(421)	(95)
2,923		**4,715**	**(1,660)**	**3,055**
5,789	**Total Non-Distributed Costs**	**1,675**	**-**	**1,675**

Net Expenditure 2008/09 £'000	Police and Fire & Rescue Services	Gross Expenditure 2009/10 £'000	Income 2009/10 £'000	Net Expenditure 2009/10 £'000
11,670	Police	12,037	-	12,037
9,039	Fire & Rescue	8,646	-	8,646
20,709	**Total**	**20,683**	**-**	**20,683**

247,162	**Total Net Cost of Services**	**315,728**	**(62,674)**	**253,054**

Notes to the Core Financial Statements

Note 3 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2009/10 financial year.

Note 4 Exceptional Items, Extraordinary Items and Prior Year Adjustments

During the year the Council made further provision for teachers' voluntary severance/early retirement of £0.307m. This is shown as an exceptional item in the Income and Expenditure Account.

Note 5 Outstanding Undischarged Obligations

During 2006/07 the Council entered into a Public Private Partnership (PPP) for the provision of new secondary schools in Earlston, Duns and Eyemouth. The schools at Duns and Eyemouth opened during 2008/09 and the Earlston school opened in 2009/10, with a GBV total of £72.512m being applied to the Balance Sheet at the time of capitalisation. A unitary charge of £6.034m was paid during 2009/10. Over the period 2008/09 to 2039/40 the Council has an obligation to pay a unitary charge totalling £302m. It is estimated that the agreement will attract around £107m in 'Level Playing Field Support' through the grant settlement from the Scottish Government.

Note 6 Significant Trading Operation

SBc Contracts is the only 'significant trading operation' at Scottish Borders Council in terms of the Local Government in Scotland Act 2003. The financial performance is summarised below:

2008/09 £'000		2009/10 £'000	3 Year Cumulative £'000
(27,389)	Turnover for the Year	(24,632)	(81,753)
(281)	(Surplus) / Deficit	(212)	(837)

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 Kingsland Primary School and Galashiels Relief Road
- a wide range of external contracts for the private sector

SBc Contracts employs 195 manual workers and around 22 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:

- producing a surplus
- 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 2009/10 SBc Contracts recorded an annual trading surplus of £0.212m against an internal budget target of £0.40m

Note 6 Significant Trading Operation (continued)

In 2009/10 turnover decreased by £2.76m (10.1%) to £24.63m due to difficult external market conditions. Of this total £7.01m (almost 28.5%) was generated by non Scottish Borders Council work. Despite the difficult external market environment, SBc Contracts again contributed very strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £4.75m during 2009/10. Within the overall £0.212m surplus generated in 2009/10, a loss of £0.294m was generated from external work (after allowing for bad debt costs of £0.533m) and a surplus of £0.506m generated on internal work.

Significant trading operations are statutorily required to at least achieve break-even over rolling three-year periods. For the 3 year period ending in financial year 2009/10, SBc Contracts generated a cumulative total surplus of £0.837m.

Note 7 Agency Work

2008/09 £'000			2009/10 £'000
300	Scottish Water	Collection of domestic water and waste water charges	308
39	Scottish Government	Reimbursable trunk road expenditure	25
10		Management fee	4
349	**Total**		**337**

Note 8 Members' Allowances

The 2009 SORP has been amended and requires separate disclosure of amounts paid to Members in respect of salaries and expenses during the year. The amounts paid in 2009/10 were £786,776 in respect of salaries and £127,516 in respect of expenses. The amounts paid in 2008/09 were £788,777 in respect of salaries and £129,887 in respect of expenses.

Note 9 Officers' Remuneration

The SORP requires the disclosure of gross employee remuneration that exceeds £50,000. Remuneration is defined, as all amounts paid to or receivable by an employee, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any benefits received by an employee otherwise than in cash.

2008/09 No.		2009/10 No.
	No. of officers whose remuneration in the year was	
27	£50,000 - £59,999 * (*)	65
24	£60,000 - £69,999 * (*)	10
3	£70,000 - £79,999 (*)	15
1	£80,000 - £89,999 *	2
3	£90,000 - £99,999	3
1	£100,000 - £109,999 * (*)	-
1	£110,000 - £119,999	2
1	£120,000 - £129,999 (*)	-
-	£130,000 - £139,999	-
-	£140,000 - £149,999	-
-	£150,000 - £159,999	-
-	£160,000 - £169,999	-
1	£170,000 - £179,999 (*)	-
62		97

Notes to the Core Financial Statements

Note 9 Officers' Remuneration (continued)

A * indicates bandings that contain a total of 9 officers whose remuneration for the year contained an element of voluntary severance on termination of their employment as part of the Council's Business Transformation programme. (*) 2008/09 figures - 8 officers whose remuneration contained an element of voluntary severance.

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. The Revenue Support Grant receivable from the Scottish Government is shown in the Income and Expenditure Account and details of transactions with government departments are shown in Note 35 to the core financial statements.

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. Note 8 shows the total allowances paid to members in 2009/10. 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 2009/10 the Pension Fund had an average balance of £2.853m of cash deposited with the Council, on which interest of £0.008m was paid. In addition the Council charged the Pension Fund £0.22m in respect of expenses incurred in administering the fund.

The Council provided material financial assistance to other bodies in 2009/10 as follows:-

- Borders Sport and Leisure Trust £1.537m
- Jedburgh Leisure Facilities Trust £0.135m
- VisitScotland £0.185m

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

- Police £12.037m
- Fire & Rescue £ 8.646m

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

Resource Transfer – a total of £4.707m was transferred from NHS Borders and utilised as follows:-

- Children's Services £0.125m
- Older People £1.293m
- Adults with Learning Difficulties £2.407m
- People with Physical Difficulties £0.697m
- Mental Health £0.185m

Borders Ability Equipment Store

- The store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.593m with a contribution from the NHS Borders of £0.258m.

Note 10 Related Parties (continued)

Galashiels Resource Centre

- This is a Day Centre run jointly with the NHS Borders for adults with mental health needs. Gross expenditure totalled £0.172m.

During 2009/10 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 2009/10 grant funding of £3.641m was received from Transport Scotland.

Note 11 Audit Remuneration

In 2009/10 the agreed audit fee for the year was £314,400, including the notified fixed element charge of £109,000, in respect of services provided by Audit Scotland (2008/09 £291,900 and £107,900 respectively with a rebate of £17,500).

Note 12 Significance of the Statement of Movement on the General Fund Balance

An analysis of the amounts additional to the surplus or deficit on the Income and Expenditure Account that are required by statute and non-statutory proper practices to be debited or credited to the General Fund are shown in the table on page 18.

Note 13 Capital Expenditure, Fixed Asset Disposals and Sources of Capital Financing

	Capital Expenditure in the year £'000	Disposals in the year £'000
Land and Buildings	49,192	(422)
Vehicles, Plant and Equipment	6,238	(25)
Infrastructure	9,206	-
Assets under construction	8,234	-
Total Tangible Fixed Assets	72,870	(447)
Purchased Software	543	-
Total	**73,413**	**(447)**

	Sources of Finance £'000
Loans Fund Advances	(25,688)
Capital financed from Current Revenue (CFCR)	(189)
Capital financed from Capital Fund	(8,193)
Finance Leases	(22,432)
Capital Grants	(15,418)
Contributions from Other Parties	(1,493)
Total	**(73,413)**

In 2009/10 the Council incurred capital expenditure totalling £44.9m. The £73.4m above, includes £28.4m in relation to the assets now recognised on the Council's balance sheet in accordance with the SORP change for accounting for PPP/PFI contracts.

Notes to the Core Financial Statements

Note 14 Capital Commitments

Capital expenditure to 31 March has resulted in commitments estimated to the value of £19.627m being entered into in respect of future years (£34.658m as at 31 March 2009).

	Capital Commitments £'000
Engineering Infrastructure	13,596
Property	4,565
Business Infrastructure	702
Fleet	695
Other	69
Total	**19,627**

Within the figure for Engineering Infrastructure, £10.202 m relates to the land purchase arrangements for the Borders Railway which is fully funded by specific grants from Transport Scotland.

Note 15 Tangible Fixed Assets

	Operational Assets			Non-Operational Assets		
	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-structure £'000	Assets under Construction £'000	Assets awaiting Disposal £'000	Total Tangible Assets £'000
Gross book value (GBV) at 31 March 2009	**233,301**	**40,292**	**110,575**	**43,584**	**4,403**	**432,155**
Prior Period adjustment	**41,030**	**-**	**-**	**-**	**3,050**	**44,080**
Revised Gross book value (GBV) at 31 March 2009	**274,331**	**40,292**	**110,575**	**43,584**	**7,453**	**476,235**
Expenditure in the year	49,177	6,238	9,206	8,234	15	**72,870**
Transfers between categories	6,758	-	-	(6,758)	-	**-**
Revaluations	9,621	-	-	-	-	**9,621**
Impairments	(2,660)	-	-	-	-	**(2,660)**
Disposals	(221)	(723)	-	-	(318)	**(1,262)**
Gross book value (GBV) at 31 March 2010	**337,006**	**45,807**	**119,781**	**45,060**	**7,150**	**554,804**
Cumulative depreciation at 31 March 2009	**(10,749)**	**(23,533)**	**(42,883)**	**-**	**(277)**	**(77,442)**
Prior Period adjustment	**(207)**	**-**	**-**	**-**	**-**	**(207)**
Revised Cumulative depreciation at 31 March 2009	**(10,956)**	**(23,533)**	**(42,883)**	**-**	**(277)**	**(77,649)**
Depreciation for the year	(8,517)	(5,602)	(4,658)	-	-	**(18,777)**
Transfers between categories	-	-	-	-	-	**-**
Revaluations	866	-	-	-	-	**866**
Impairments	345	-	-	-	-	**345**
Disposals	10	698	-	-	107	**815**
Cumulative depreciation at 31 March 2010	**(18,252)**	**(28,437)**	**(47,541)**	**-**	**(170)**	**(94,400)**
Net book value at 31 March 2010	**318,754**	**17,370**	**72,240**	**45,060**	**6,980**	**460,404**

Net book value at 31 March 2009	**222,552**	**16,759**	**67,692**	**43,584**	**4,126**	**354,713**
Prior Period adjustment	**40,823**	**-**	**-**	**-**	**3,050**	**43,873**
Revised Net book value at 31 March 2009	**263,375**	**16,759**	**67,692**	**43,584**	**7,176**	**398,586**

Community assets are valued at nil as per the current capital accounting rules and include assets such as parks, playing fields, cemeteries, etc.

Notes to the Core Financial Statements

Note 15 Tangible Fixed Assets (continued)

Included within Operational Assets – Land & Buildings are the high schools recognised under PPP/PFI contract arrangements. The gross book value of these assets at 31 March 2010 was £72.512m (31 March 2009: £44.079m). The accumulated depreciation at 31 March 2010 was £2.052m (31 March 2009: £0.2m).

Information on Assets Held

The main assets held by the Council as at 31 March 2010 are as follows**:-**

Land and Buildings		**Vehicles, Plant, Furniture and Fittings**	
Council Offices	60	Vehicles	617
Residential / Day Centres	24	Plant and other equipment	1,726
Depots, stores and workshops	42		
Halls	33	**Infrastructure**	
Landfill sites	15	Roads (kilometre length)	2,943
Libraries	11	Bridges	1,261
Museums	8	Car parks	89
Pavilions	6		
Public conveniences	59	**Industrial Properties**	
Nursery units	46	Industrial units	259
Primary schools	65		
Secondary schools	9	**Community Assets**	
Sports centre / Swimming pools	15	Cemeteries	154
Community Centres and Youth Clubs	34	Parks and play areas	133
Shops	32	War memorials	51
Agricultural / Development land	14	Clocks	11
Outdoor study centres	5	Monuments and statues	23
Golf courses / Clubhouses	2		
Other land, sites and buildings	163		

Reconciliation of Gross Book Value to Certified Revaluations

	Operational Assets			Non-Operational Assets		
	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra- structure £'000	Assets under Construction £'000	Assets awaiting Disposal £'000	Total Tangible Assets £'000
Value at Historic Cost	109,434	45,807	119,781	44,810	3,162	**322,994**
New Certified Valuation						
1st April 2009	23,160	-	-	-	125	**23,285**
1st April 2008	151,706	-	-	250	3,801	**155,757**
1st April 2007	31,574	-	-	-	62	**31,636**
1st April 2006	7,469	-	-	-	-	**7,469**
1st April 2005	3,099	-	-	-	-	**3,099**
1st April 2004	10,564	-	-	-	-	**10,564**
Gross book value (GBV) at 31 March 2010	**337,006**	**45,807**	**119,781**	**45,060**	**7,150**	**554,804**

Note 15 Tangible Fixed Assets (continued)

Valuation and Depreciation Disclosures

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 2009/10 the fixed assets of the Planning & Economic Development department and Common Good and Trusts were re-valued. This included industrial & retail units, yards and other miscellaneous lands and properties.
- Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. Properties were valued by the authority'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 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 5 years.
- IT equipment is depreciated over 3 years.
- Roads infrastructure has been depreciated, using the straight-line method, over 25 years and IT infrastructure over 5 years.
- Depreciation has been directly charged to services.

Assets Awaiting Disposal

At the point of being declared surplus, fixed assets awaiting disposal are re-valued to the estimated sale proceeds.

Revaluation Cycle

The groups of land and buildings revalued in each of the last five years were:

- 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
- 1 April 2006 – Technical Services properties (other than those included within Environmental Services)
- 1 April 2005 – Former housing properties and Environmental Services

Former housing properties and Environmental Services will be revalued as at 1 April 2010 with the resulting adjustments incorporated into the 2010/11 accounts of the Council.

Notes to the Core Financial Statements

Note 16 Leasing Disclosures (Lessee)

In its capacity as lessee, the Council made the following payments to lessors in 2009/10:

2008/09 As Restated £'000		2009/10 £'000
	Operating Leases	
-	Land and Buildings	-
911	Plant and equipment	666
911	Sub total	666
	Finance Leases	
384	Land and Buildings	4,245
333	Plant and equipment	333
717	Sub total	4,578
1,628	**Total**	**5,244**

The following assets were held under finance leases:

2008/09 As Restated £'000		2009/10 £'000
	Gross Asset Value	
44,079	Land and Buildings	72,512
1,485	Plant and equipment	1,485
45,564		73,997
	Accumulated Depreciation	
(207)	Land and Buildings	(2,052)
(984)	Plant and equipment	(1,281)
(1,191)		(3,333)
	Net Asset Value	
43,872	Land and Buildings	70,460
501	Plant and equipment	204
44,373	**Total**	**70,664**

The 2008/09 figures above have been restated to reflect the changes in accounting for PPP/PFI contracts as required by the 2009 SORP. Further details about these changes can be found at Note 1 to the Core Financial Statements.

Depreciation of £2.142m was charged to 2009/10 (2008/09 as restated: £0.504m). Finance lease obligations, net of finance charges, are as follows:

	2010/11 £'000	2011/12 to 2014/15 £'000	2015/16 onwards £'000	Total £'000
Land and Buildings	1,562	6,716	56,885	65,163
Plant and equipment	13	–	–	13
Total	1,575	6,716	56,885	65,176

Aggregate finance charges in respect of finance leases totalled £2.986m (£0.337m in 2008/09).

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.

Note 16 Leasing Disclosures (Lessee) (continued)

In respect of operating leases the Council is committed to make payments of £0.518m in 2010/11, relating to obligations expiring as follows:-

	2010/11 £'000	2011/12 to 2014/15 £'000	2015/16 onwards £'000	Total £'000
Plant and equipment	134	376	8	518

Note 17 Leasing Disclosures (Lessor)

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

2008/09 £'000		2009/10 £'000
(275)	Finance leases	(165)
(1,292)	Operating leases	(1,000)
(1,567)	**Total**	**(1,165)**

On the 9 February 2010 the Council disposed of its interest in the property for which it has been receiving income under a finance lease agreement. At the 31 March 2010 the Council had no investments in finance leases as lessor.

The Gross Book Value of assets held for use in operating leases was £10.071m with related accumulated depreciation charges of £0.382m.

No assets were acquired in 2009/10 for the purpose of letting under finance leases.

Notes to the Core Financial Statements

Note 18 Intangible Assets (Purchased Software)

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 5 years.

	Intangible Assets £'000
Gross book value (GBV) at 31 March 2009	**2,009**
Expenditure in the year	543
Disposals	-
Gross book value (GBV) at 31 March 2010	**2,552**
Cumulative amortisation at 31 March 2009	**(1,102)**
Amortisation for the year	(438)
Disposals	-
Cumulative amortisation at 31 March 2010	**(1,540)**
Net book value at 31 March 2010	**1,012**
Net book value at 31 March 2009	**907**

There were no disposals, revaluations, transfers or impairments of intangible assets in 2009/10.

Note 19 Net Assets

The total net liabilities for 2009/10 on the Balance Sheet relate to the General Fund.

Note 20 Outstanding Loans

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

31 March 2009 As Restated			31 March 2010	
£'000	%		£'000	%
(44,356)	26	Bonds and Mortgages	(44,369)	26
(120,131)	72	Public Works Loan Board	(120,131)	69
(617)	-	European Investment Bank	(510)	-
(165,104)	**98**	**External Borrowing**	**(165,010)**	**95**
(165,104)	**98**	**Long Term Borrowing**	**(165,010)**	**95**
(3,361)	2	Short Term Borrowing repayable within 12 months	(8,276)	5
(168,465)	**100**	**Total Borrowing**	**(173,286)**	**100**

Note 20 Outstanding Loans (continued)

Analysis of Loans by Maturity.

2009 As Restated £'000		2010 £'000
(3,361)	Less than 1 year	(8,276)
(107)	Between 1 and 2 years	(249)
(380)	Between 2 and 7 years	(284)
(5,489)	Between 7 and 15 years	(6,289)
(159,128)	More than 15 years	(158,188)
(168,465)	**Total**	**(173,286)**

The short term and long term borrowing figures for 2008/09 have been restated to show accrued interest payable as payable within 12 months rather than with the long term borrowing to which the interest relates. Further details about these changes can be found at Note 1 to the Core Financial Statements.

Note 21 Insurance Fund

The first £71,000 of each employer's and each public liability claim is met by the Council on a self-insured basis, as is the first £50,000 of each fire claim. Liability to meet self-insured costs is limited to £350,000 for fire claims and £500,000 for combined liability claims in any one insurance year.

- At 31 March 2010 the balance on the fund was £1.568m
- The value of known claims at that date was estimated at £1.190m

2008/09 £'000	2008/09 £'000		2009/10 £'000	2009/10 £'000
	(4,083)	**Balance as at 1 April**		(1,660)
(1,328)		Income from premiums charged to services	(1,313)	
(110)		Interest on balances	(6)	
-		Other income	-	
	(1,438)			(1,319)
1,047		Premium costs	1,133	
222		Claims costs	164	
102		Administration charges	114	
2,490		Transfer to Capital Fund	-	
	3,861			1,411
	(1,660)	**Balance as at 31 March**		**(1,568)**

Notes to the Core Financial Statements

Note 22 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	Total £'000
Balance at 1 April 2009	**(62)**	**(1,084)**	**(2,413)**	**(3,559)**
Additional charges to provisions	(121)	-	(307)	**(428)**
Payments made or released	27	234	2,228	**2,489**
Balance at 31 March 2010	**(156)**	**(850)**	**(492)**	**(1,498)**
Within 12 Months	(156)	(850)	(492)	**(1,498)**
Over 12 months	-	-	-	**-**
Total	**(156)**	**(850)**	**(492)**	**(1,498)**

Note 23 Details of Movements on Reserves

	Balance as at 31 March 2009 As Restated £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2010 £'000
General Fund	(10,949)	(3,147)	3,968	(10,128)
Corporate Repairs and Renewals Fund	(39)	(10)	-	(49)
Insurance Fund	(1,660)	92	-	(1,568)
Capital Fund *	(7,248)	3,746	-	(3,502)
Pensions Reserve	70,647	(1,090)	84,683	154,240
Revaluation Reserve	(40,382)	518	(10,487)	(50,351)
Capital Adjustment Account *	(71,573)	449	-	(71,124)
Financial Instruments Adjustment Account	9,513	(558)	-	8,955
Total	**(51,691)**	**-**	**78,164**	**26,473**

* The Capital Adjustment Account and the Capital Fund have been restated as explained in Note 1.

Note 24 Balances held by Schools under Delegated Schemes

The Council operates a Devolved School Management (DSM) scheme that devolves the management of certain expenditure directly to schools. This allows money unspent at the end of the financial year to be carried forward into the following financial year for the benefit of the schools concerned. The closing balance represents part of the earmarked portion of the General Fund Reserve and at 31 March 2010 was £1.144m (£1.273m at 31 March 2009).

Note 25 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; and
- earmarked reserves to meet known or predicted liabilities.

2009 £'000	Analysis as at 31 March	2010 £'000
	Earmarked Reserves	
(1,273)	Education - Devolved School Management	(1,144)
	Specific Departmental Reserves	
(742)	Central Services	(544)
(567)	Education	(464)
(105)	Planning Development Services	(118)
(2,415)	Social Work	(1,879)
(208)	Roads and Transport Services	(91)
-	Environmental Services	(15)
(5,310)		(4,255)
(5,639)	Non-earmarked Reserve	(5,873)
(10,949)	**Total General Fund Reserve**	**(10,128)**

Note 26 Capital Reserves

	Revaluation Reserve £'000	Capital Adjustment Account £'000	Total £'000
Balance as at 1 April 2009	**(40,382)**	**(71,702)**	**(112,084)**
Prior Period Adjustment	-	129	129
Revised Balance as at 1 April 2009	**(40,382)**	**(71,573)**	**(111,955)**
Amortisation of Government Grants	-	(3,229)	(3,229)
Revenue Financing of Fixed Assets	-	(189)	(189)
Financing of Fixed Assets from Capital Fund	-	(8,193)	(8,193)
Statutory provision for repayment of debt	-	(11,860)	(11,860)
Revaluation of Fixed Assets	(10,487)	2,316	(8,171)
NBV of Fixed Asset disposals	63	2,845	2,908
Depreciation of Tangible Fixed Assets	455	18,321	18,776
Amortisation of Intangible Assets	-	438	438
Balance as at 31 March 2010	**(50,351)**	**(71,124)**	**(121,475)**

Notes to the Core Financial Statements

Note 26 Capital Reserves (continued)

	Capital Fund £'000
Balance as at 1 April 2009	**(11,654)**
Prior Period Adjustment	4,406
Revised Balance as at 1 April 2009	**(7,248)**
Capital Receipts	(2,875)
Financing of Fixed Assets	8,193
Set aside for repayment of Debt Principal	641
Contributions from General Fund	(2,213)
Balance as at 31 March 2010	**(3,502)**

The prior period adjustment relates to the reclassification of unapplied developer contributions to long term creditors. This reclassification is a disclosure adjustment only and these unapplied contributions remain part of the capital financing sources available to the Council.

Note 27 Contingent Liabilities

The Council has guaranteed the repayment of a loan of £1m advanced to Eyemouth Harbour Trustees by the Public Works Loan Board on 11 June 1998 repayable by equal half-yearly instalments ending on 11 December 2048. At 31 March 2010 the balance outstanding on that loan was £942,623 (including accrued interest to that date). The Trustees have granted a Standard Security, which is postponed to one held by the PWLB, over the heritable property comprising the harbour undertaking in favour of the Council. On 30 March 2010 the Council Executive agreed to take over the loan repayments for a period of 5 years at a cost of £61,089 per year.

Scottish Borders Housing Association has submitted a claim against the Council seeking compensation as a consequence of the Council's alleged failure to provide accurate or complete information in relation to certain matters in connection with the sale of housing stock to the Association. This claim will proceed to arbitration or other dispute resolution procedure as agreed by the parties. The Council has appointed advisers to review and defend the claim. The information usually required by FRS 12 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the claim.

First Edinburgh Limited has submitted a claim against the Council at the Court of Session seeking payment in respect of scholars' passes issued under passenger transport contracts. The Council is defending the claim and the Record is now closed and a Proof Before Answer has been arranged for October 2010. The information usually required by FRS 12 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

Note 28 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. In line with FRS 17, the value of this commitment 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 29.

Note 28 Defined Benefit Pension Schemes (continued)

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the Net 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 the Statement of Movement on General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement on General Fund Balance during the year:

2008/09 £'000	Income & Expenditure Account	2009/10 £'000
	Net Cost of Services	
8,376	Current Service Cost	6,743
1,569	Past Service Cost	973
1,462	Losses (Gains) on Curtailments and Settlements	395
	Net Operating Expenditure	
20,440	Interest Cost	18,910
(18,972)	Expected Return on Scheme Assets	(14,281)
12,875	**Net Charge to the Income & Expenditure Account**	**12,740**
	Statement of Movement on the General Fund Balance	
(12,875)	Reversal of net charges made for retirement benefits in accordance with FRS 17	(12,740)
	Actual amount charged against the General Fund for pensions in the year	
13,371	Employers' contributions payable to the scheme	13,828

The calculation of current service cost for pension benefit earned is based on the discount rate at the start of the year.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £84.683m (£26.812m in 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is a cumulative actuarial loss of £68.897m.

There were no material prepaid or accrued pension contributions at the Balance Sheet date.

Notes to the Core Financial Statements

Note 28 Defined Benefit Pension Schemes (continued)

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities

2008/09 £'000	Reconciliation of the present value of scheme liabilities	2009/10 £'000
315,537	**Opening Defined Benefit Obligation**	283,494
8,376	Current Service Cost	6,743
20,440	Interest Cost	18,910
3,742	Contributions by Scheme Participants	4,074
(55,296)	Actuarial losses (gains)	167,060
(11,221)	Benefits Paid	(12,201)
1,462	Curtailments	395
1,569	Past Service Cost	973
(1,115)	Unfunded Pension Payments	(1,636)
283,494	**Closing Defined Benefit Obligation**	**467,812**

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 2010.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money' whereby the value of cash received now is regarded as being higher than cash received in, for example, ten years time, as the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money a discount factor based on corporate bond rates is used. The corporate bond rate used for the valuation at 31 March 2010 (1.59%) is significantly lower than that used at 31 March 2009 (3.69%). This has contributed to a significant increase in the estimated current value of the pension liability.

This increase in liabilities has been partially offset by increases in asset values in line with the stock market recovery. However this growth has been insufficient to offset the increase in liabilities.

2008/09 £'000	Reconciliation of fair value of scheme assets	2009/10 £'000
271,205	**Opening Fair Value of Scheme Assets**	212,847
18,972	Expected Return on Scheme Assets	14,281
(82,107)	Actuarial Gains (Losses)	82,379
13,371	Employer Contributions including unfunded pensions	13,828
3,742	Contributions by Scheme Participants	4,074
(12,336)	Estimated Benefits Paid	(13,837)
212,847	**Closing Fair Value of Scheme Assets**	**313,572**

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 £96.660m ((£63.135m) in 2008/09).

Note 28 Defined Benefit Pension Schemes (continued)

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 2008.

The principal assumptions used by the actuary are shown below

2008/09	Principal Assumptions used by the Actuary	2009/10
	Long-term expected rate of return on assets in the scheme	
7.3%	Equity investments	7.8%
4.0%	Gilts	4.5%
6.5%	Other bonds	5.5%
6.8%	Property	5.5%
3.0%	Cash	3.0%
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
18.62	Men	18.62
21.54	Women	21.54
	- longevity at 65 for future pensioners (years)	
19.54	Men	19.54
22.46	Women	22.46
3.0%	Rate of inflation	3.9%
4.5%	Rate of increase in salaries	5.4%
3.0%	Rate of increase in pensions	3.9%
6.7%	Rate for discounting scheme liabilities	5.5%
50%	Take up of option to convert annual pension into retirement lump sum	50%

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

2008/09		Category Analysis of the Fair Value of the Scheme Assets as at 31 March 2010	2009/10	
%	£'000		%	£'000
71	151,760	Equities	79	247,722
8	16,815	Gilts	6	18,814
10	20,646	Other Bonds	8	25,086
6	12,771	Property	5	15,679
5	10,855	Cash	2	6,271
100	**212,847**	**Total**	**100**	**313,572**

Notes to the Core Financial Statements

Note 28 Defined Benefit Pension Schemes (continued)

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	2009/10 £'000	2008/09 £'000	2007/08 £'000	2006/07 £'000	2005/06 £'000
Defined Benefit Obligation	(467,812)	(283,492)	(315,537)	(337,415)	(335,531)
Scheme Assets	313,572	212,847	271,205	284,131	267,258
Surplus / (Deficit)	(154,240)	(70,645)	(44,332)	(53,284)	(68,273)
Experience adjustments on Scheme Liabilities	(4,776)	5,730	-	-	20,737
Percentage of Liabilities	(1.0%)	(2.0%)	-	-	(6.2%)
Experience adjustments on Scheme Assets	82,379	(82,107)	(38,649)	(3,765)	45,424
Percentage of Assets	26.3%	(38.6%)	(14.3%)	(1.3%)	17.0%

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £467m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £26.4m.

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. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £12.2m.

Note 29 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 2009/10, the Council paid £6.645m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£6.003m and 13.5% in 2008/09). 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 2009/10 these amounted to £0.500m representing 1.10% of pensionable pay (£0.429m and 0.94% in 2008/09).

Note 30 Authorisation for the Issue of the Accounts

The Statement of Accounts was authorised for issue on 30 June 2010 by the Chief Financial Officer.

Note 31 Material Post Balance Sheet Events

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.

Note 32 Reconciliation between the Income and Expenditure Account and the revenue activities in the Cash Flow Statement

2008/09 As Restated £'000	Reconciliation to Income & Expenditure Account	2009/10 £'000	2009/10 £'000
9,020	(Surplus) / Deficit on Income and Expenditure Account		**3,982**
	Less - Non-Cash Transactions		
(18,100)	Depreciation and impairment	(21,531)	
2,438	Amortisation of grants	3,229	
497	FRS17 Pension adjustments	1,088	
(2,748)	Other non-cash items	959	
(17,913)			(16,255)
	Items on an Accruals Basis		
45	Movement in stocks & stores	(101)	
709	Movement in revenue debtors	(991)	
(1,516)	Movement in revenue creditors	6,554	
910	Movement in other provisions	2,061	
148			7,523
	Items treated as Servicing of Finance		
(9,087)	Interest paid	(8,794)	
(338)	Interest element of finance lease rental payments	(2,998)	
2,649	Interest received	139	
165	Interest element of finance lease rental receipts	142	
(6,611)			(11,511)
(15,356)	**Net cash outflow / (inflow) from revenue activities**		**(16,261)**

Note 33 Reconciliation of the movement in Cash to the movement in Net Debt (as per Note 34)

2008/09 As Restated £'000		2009/10 £'000
(127,563)	**Net Debt as at 1 April**	**(180,017)**
815	Increase / (decrease) in cash	(3,350)
(38,016)	(Increase) / decrease in long term debt	(25,983)
(12,500)	Increase / (decrease) in short term deposits	(19,764)
(49,701)	Movement in net debt during the year	(49,097)
(2,753)	Non-cash items	381
(180,017)	**Net Debt as at 31 March**	**(228,733)**

Notes to the Core Financial Statements

Note 34 Financing and Management of Liquid Resources

Balance at 31 March 2009 As Restated £'000		Cash Flow £'000	Non-Cash Items £'000	Balance at 31 March 2010 £'000
3,597	Cash in hand and at bank	(3,350)	-	247
	Borrowings			
(3,361)	Debt repayable within one year	(4,915)	-	(8,276)
(165,104)	Debt repayable after more than one year	94	-	(165,010)
(333)	Balances outstanding on finance leases	(64,843)	-	(65,176)
(168,798)	Total Borrowings	(69,664)	-	(238,462)
28,865	Short term deposits	(19,764)	381	9,483
(136,336)	**Net Debt**	**(92,778)**	**381**	**(228,732)**

Liquid resources comprise short and long-term borrowing, cash and bank balances and short-term deposits.

Note 35 Analysis of Government Grants in the Cash Flow Statement

2008/09 £'000		2009/10 £'000
	Central Services	
(56)	Community Safety	-
	General Fund Housing Services	
(963)	Benefits Administration	(1,082)
	Planning & Development Services	
(112)	Countryside	-
	Social Work	
(127)	People with Physical Difficulties	(125)
(125)	Older People	(218)
(1,953)	Criminal Justice	(1,674)
123	Children and Families	-
(2,436)	Private Sector Housing Renewal	(2,027)
	Education	
(42)	Training	(26)
(17)	Nursery	-
(553)	Secondary	(37)
(33)	Administration	(25)
(361)	Other Education	(83)
	Roads & Transport Services	
(356)	Rural Transport	(356)
	Environmental Services	
(366)	Strategic Waste Fund	(366)
-	Other	(60)
(7,377)		**(6,079)**

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments

Key Risks

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 requiring 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 implementing restrictions to minimise these risks. The procedures for risk management are established through a legal framework set out in the Local Government (Scotland) Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities, the CIPFA Treasury Management in the Public Services Code of Practice and best practice. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the 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 the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting 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 at least annually to Members.

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 Policy was approved by the Council's Executive on 31 March 2009 and the prudential indicators were approved by the Council on 12 February 2009. The key issues within the strategy were:

- The Authorised Limit for 2009/10 was set at £239.2m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary (excluding PFI) was expected to be £216.4m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £216.4m and £75.7m based on the Council's net debt.

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

- The maximum and minimum exposures to the maturity structure of debt were as follows:

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

Credit risk

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

This risk is minimised through the Annual Treasury Management 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 Management Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not placed with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined below. Details of the Treasury Management Strategy can be found on the Council's website but the key areas include:

- Sector limits that are applied to the overall amount lent out to any one sector at any one time in order to limit sector specific exposure risk, being :

UK Building Societies	£25m
Banks	£35m
UK Local Authorities	£40m
UK Government Debt Management Office	£40m
Institutions covered by Government Guarantee	£10m

- Group limits that are applied to the overall amount lent out to institutions within the same group at any one time in order to limit group specific exposure risk, as follows:

Group of Banks	£10m

- Individual institution limits where surplus funds may, from time to time, be placed with institutions that satisfy our credit counterparty criteria. Although we receive credit counterparty data from the three principal international rating agencies we apply the 'lowest common denominator' principle, meaning that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. This includes UK local authorities, plus UK incorporated institutions, UK building societies and banks incorporated in the European Economic Area entitled to accept deposits through a branch in the UK that meet the following criteria, using the lowest common denominator approach;

	Standard & Poors	Moodys	Fitch
Short-Term Rating	A-1	P-2	F1
Long-Term Rating	A-1	A (2)	A
Individual / Financial Strength Rating	Not Assessed	C	C
Support Rating	Not Assessed	Not Assessed	3

- No limit is applied to lending to a UK local authority other than it must not exceed the relevant sector limit of £40m
- An individual institution limit of £5m is applied to any other organisation, subject to that amount not breaching any relevant sector or group limit

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

The following analysis summarises the Council's maximum exposure to credit risk. The table (from Fitch, Standard & Poors and Moodys) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2009. Defaults shown are by long-term rating category on investments out to one year, which were the most commonly held investments during the year. This table excludes deposits in two Icelandic banks which are covered separately in these notes.

	Amount as at 31 March 2010 a £'000	Historical experience of default b	Adjustments for market conditions at 31 March 2010 c	Estimated maximum exposure to default (a x c) £'000
Deposits with banks and financial institutions				
AAA' rated counterparties	-	-	-	-
AA' rated counterparties	3,500	0.03%	0.03%	1
A' rated counterparties	-	-	-	-
Other counterparties	-	-	-	-
Bonds - 'AAA' rates	-	-	-	-
Total	**3,500**	**-**	**-**	**1**

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 deposits and bonds other than the continuing developments in respect of its deposits in two Icelandic banks as set out below.

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £10m invested in this sector at that time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. The impact of the principal invested has been mitigated in the accounts according to government regulations, although all related investment income has been fully impaired.

In the 2008/09 accounts the recovery in respect of Heritable Bank, which is a UK registered bank under Scots law, was estimated at 80% of the £5m invested. During 2009/10 three repayments were received representing 34.98% of the claim and totalled £1.764m. The latest information available suggests a total recovery of 84.98% of the claim, based on a strategy of winding up the bank by 2012. On this basis the remaining repayment schedule is estimated as follows:

Date	Repayment	Date	Repayment
Jun 2010	5%	Sep 2011	5%
Sep 2010	5%	Dec 2011	5%
Dec 2010	5%	Mar 2012	5%
Mar 2011	5%	Jun 2012	5%
Jun 2011	5%	Sep 2012	5%

Landsbanki Islands hf is an Icelandic entity. The 2008/09 accounts were completed on the basis that the Council would be recognised as a preferential creditor with a recovery of 83% of the £5m investment. It is considered unlikely that there will be a settled position on priority status before the second quarter of 2011. However the view of the Landsbanki Winding-Up Board and local authorities' legal advice remains that local authority deposits have priority or preferential creditor status under Icelandic law. Deposits with Icelandic domiciled banks were converted to Icelandic Krona (ISK) on 22 April 2009, although the latest information available indicates that exchange rate risk can be ignored when estimating any future cash flows.

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

No repayments were received in respect of Landsbanki Islands hf during 2009/10. Based on priority or preferential creditor status the latest information available indicates an estimated repayment schedule, totaling 94.86% as follows:

Date	Repayment	Date	Repayment
Oct 2011	22.17%	Oct 2015	8.87%
Oct 2012	8.87%	Oct 2016	8.87%
Oct 2013	8.87%	Oct 2017	8.87%
Oct 2014	8.87%	Oct 2018	19.47%

Based on these repayment profiles the revised carrying amount and impairment at 31 March 2010 are summarised below:

Bank	Date of Deposit	Date Repayment Due	Sum £	Interest Rate %	Carrying Amount £	Impairment £
Landsbanki	15/05/2008	17/11/2008	3,000,000	5.95	3,294,094	1,086,842
	25/07/2008	23/01/2009	2,000,000	6.05	2,174,643	725,835
Heritable Bank	25/07/2008	23/01/2009	1,000,000	6.05	725,930	259,663
	22/08/2008	19/12/2008	4,000,000	5.87	2,876,047	1,015,471

There has been an overall increase in the impairment of £0.029m to 31 March 2010. The revised impairment loss of £3.088m has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Council until monies are recovered. Adjustments to the assumptions will be made in future accounts as appropriate as more information becomes available. The Council has taken advantage of the statutory guidance to defer the impact of the impairment on the General Fund and a sum of £3.088m has been transferred to the Financial Instruments Adjustment Account.

The following table summarises the net effect on the Income and Expenditure Account over the next few years, based on the latest information:

Estimated Net Impact on the Income & Expenditure Account	£000
2009/10	-
2010/11	2,168
2011/12	(275)
2012/13	(181)
Subsequent years	(602)
	1,110

Under the regulations the Council must transfer the relevant part of the balance of the Financial Instruments Adjustment Account to the General Fund no later than 31 March 2011. In March 2010 the Council agreed to earmark a windfall capital receipt to meet the impairment loss in 2010/11.

As at 31 March 2010 the Council had £3.5m on short term deposits, all within the UK.

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

Debtors

The Council does not generally allow credit for its trade debtors, such that the total of £7.783m is past its due date for payment. This can be analysed by age as follows;

2008/09 £'000	Period	2009/10 £000
4,371	Up to 1 month	3,442
776	1 to 2 months	270
238	2 to 3 months	188
445	3 to 4 months	128
353	4 to 5 months	105
2,917	5 months +	3,650
9,100		**7,783**

Net 2008/09 £'000		Gross Debtors £'000	Bad Debt Provision £'000	Net 2009/10 £'000
-	Community Charge	147	(147)	-
3,631	Council Tax	10,260	(5,571)	4,689
7,967	Sundry Debtors	15,444	(988)	14,456
465	Payments in Advance	496	-	496
7,128	Departmental Accruals	4,207	-	4,207
3,215	Other Debtors	100	-	100
22,406	**Total**	**30,654**	**(6,706)**	**23,948**

Collateral – During the reporting period the Council held no collateral as security.

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 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 provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). 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 to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential 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.

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

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 on 12 February 2009:

	Approved Minimum Limits £000	Approved Minimum Limits %	Approved Maximum Limits £000	Approved Maximum Limits %	Actual 31 March 2010 £000	Actual 31 March 2009 £000
Less than one year	-	-	43,280	20	8,276	3,361
Between one and two years	-	-	43,280	20	249	107
Between two and seven years	-	-	43,280	20	284	380
Between seven and fifteen years	-	-	43,280	20	6,289	5,489
More than fifteen years	43,280	20	216,400	100	158,188	159,128
Total					**173,286**	**168,465**

All trade and other payables (£41.418m) are due to be paid in less than one year and are not shown in the table above.

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

The maturity analysis of financial assets is as follows:

	Approved Maximum Limits %	Actual 31 March 2010 £000	Actual 31 March 2009 £000
Less than one year	100	9,483	28,865
Between one and two years	20	-	-
Between two and five years	-	-	-
Between five and ten years	-	-	-
More than ten years	-	-	-
Total		**9,483**	**28,865**

A maximum limit of 20% was set in respect of the period from one to two years on the assumption that investing surplus funds for more than one year would be allowed at some point in 2009/10. The relevant powers were not in place until 1 April 2010.

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 Income and Expenditure Account 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 Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or Statement of Total Recognised Gains and Losses (STRGL). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account 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 STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposure. The 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:

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(4)
Impact on Income and Expenditure Account	(4)
Increase in government grant receivable for financing costs	-
Decrease in fair value of fixed rate investment assets	-
Impact on STRGL	-
Decrease in fair value of fixed rate borrowing liabilities (No impact on I&E Account or STRGL)	30,954

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. 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 - The Council, excluding the Pension Fund, has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

Other Financial Instrument Disclosures

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

	Long-Term		Current	
	31 March 2009 £'000	31 March 2010 £'000	31 March 2009 £'000	31 March 2010 £'000
Financial Liabilities (principal amount)	163,785	163,677	166	5,094
+ Accrued Interest	-	-	3,195	3,182
+/- Other Accounting Adjustments	1,319	1,333	-	-
Financial Liabilities at Amortised Cost	165,104	165,010	3,361	8,276
Financial Liabilities at fair value through the Income and Expenditure Account	-	-	-	-
Total Borrowings	**165,104**	**165,010**	**3,361**	**8,276**
Financial Guarantees	-	-	-	-
Soft Loans Received	-	-	-	-
Loans and Receivables (principal amount)	2,879	391	(28,865)	(9,483)
+ accrued interest	-	-	-	-
+/- Other Accounting Adjustments	-	-	-	-
Loans and receivables at Amortised Cost	2,879	391	(28,865)	(9,483)
Available for sale financial assets	-	-	-	-
Financial assets at fair value through the Income and Expenditure Account	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Total Investments	**2,879**	**391**	**(28,865)**	**(9,483)**
Soft Loans Provided	**-**	**-**	**-**	**-**

In terms of significant movements the amount of short-term deposits reduced from £28.865m as at 31 March 2009 to £9.483m as at 31 March 2010. This reflects the policy that has been utilised over the past two years where surplus cash flows have been used to fund capital expenditure rather than increasing external borrowing. This policy has been followed due to the significant difference between the cost of long-term debt and the rate of interest achievable on short-term investments as well as helping manage exposure to counterparty risk.

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

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

	2009/10				
	Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Fair value through the I & E A/C	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense	11,899	-	-	-	11,899
Losses on derecognition	-	-	-	-	-
Impairment Losses	-	29	-	-	29
Interest payable and similar charges	**11,899**	**29**	**-**	**-**	**11,928**
Interest Income	-	(569)	-	-	(569)
Gains on derecognition	-	-	-	-	-
Interest and investment income	**-**	**(569)**	**-**	**-**	**(569)**
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Income and Expenditure Account after impairment	-	-	-	-	-
Surplus arising from revaluation of financial assets	**-**	**-**	**-**	**-**	**-**
Net (gain) / loss for the year	**11,899**	**(540)**	**-**	**-**	**11,359**

	2008/09				
	Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Fair value through the I & E A/C	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense	8,593	-	-	-	8,593
Losses on derecognition	-	-	-	-	-
Impairment Losses	-	2,635	-	-	2,635
Interest payable and similar charges	**8,593**	**2,635**	**-**	**-**	**11,228**
Interest Income	-	(1,825)	-	-	(1,825)
Gains on derecognition	-	-	-	-	-
Interest and investment income	**-**	**(1,825)**	**-**	**-**	**(1,825)**
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Income and Expenditure Account after impairment	-	-	-	-	-
Surplus arising from revaluation of financial assets	**-**	**-**	**-**	**-**	**-**
Net (gain) / loss for the year	**8,593**	**810**	**-**	**-**	**9,403**

Notes to the Core Financial Statements

Note 36 Disclosure of Nature and Extent of Risk Arising from Financial Instruments (continued)

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 principal outstanding 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 2009		31 March 2010	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(122,842)	(159,060)	(122,773)	(154,101)
Other debt	(45,623)	(44,204)	(50,513)	(43,561)
Total debt	**(168,465)**	**(203,264)**	**(173,286)**	**(197,662)**
Creditors	(45,199)	(45,199)	(41,418)	(41,418)
Total financial liabilities	**(213,664)**	**(248,463)**	**(214,704)**	**(239,080)**

	31 March 2009		31 March 2010	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Money market loans < 1 year	28,865	28,865	9,483	9,483
Money market loans > 1 year	-	-	-	-
Bonds	-	-	-	-
Total investments	**28,865**	**28,865**	**9,483**	**9,483**
Debtors	22,492	22,492	23,948	23,948
Total loans and receivables	**51,357**	**51,357**	**33,431**	**33,431**

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.

Council Tax Income Account

2008/09 £'000	2008/09 £'000		2009/10 £'000	2009/10 £'000
	(54,355)	Gross Charges Levied		(54,938)
5,366		Less: Benefits	5,757	
(5,450)		Government Subsidy	(5,846)	
(84)			(89)	
4,780		Discounts	4,877	
622		Provision for bad debts	626	
300		Lump Sum Payment Discounts	320	
(31)		Miscellaneous	(31)	
	5,587			5,703
	(48,768)			**(49,235)**
	(2)	Community Charge collected		(1)
	(48,770)	**Total Income reflected in the Income and Expenditure Account**		**(49,236)**

Notes to the Council Tax Income Account

1 Calculation of Council Tax base at 1 April 2009

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2009/10 £
A	16,667	6/9	11,111	722.67
B	12,531	7/9	9,746	843.11
C	6,491	8/9	5,770	963.56
D	5,535	9/9	5,535	1,084.00
E	5,920	11/9	7,236	1,324.89
F	4,246	13/9	6,133	1,565.78
G	3,740	15/9	6,233	1,806.67
H	409	18/9	818	2,168.00
Total	**55,539**		**52,582**	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(7,063)	
Estimated net income from a Council Tax of £1 for 2009/10			**£45,519**	

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 2009/10 the Band D charges were £184.77 for water and £208.80 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 2009/10 is £14.799m and, after making a bad debt provision, the net amount projected to be paid is £14.593m.

Non-Domestic Rate Income Account

2008/09 £'000	2008/09 £'000		2009/10 £'000	2009/10 £'000
	(26,084)	Gross Charges Levied		(28,964)
4,333		Less: Reliefs and remissions	5,849	
261		Provision for bad debts	277	
57		Interest paid on overpaid rates	24	
	4,651			6,150
	(21,433)			(22,814)
	(124)	Net General Fund expenditure on discretionary reliefs		(75)
	(21,557)	**Net Non-Domestic Rate Income**		**(22,889)**
21,557		Contribution to National Pool	22,889	
(42,287)		Distribution received from National Pool as part of Aggregate External Finance	(46,076)	
	(20,730)			(23,187)
	(42,287)	**Total Income reflected in the Income and Expenditure Account**		**(46,076)**

Notes to the Non-Domestic Rate Income Account

1 Rateable Subjects at 1 April 2009

Classification	Number	Rateable Value £'000
Shops	1,260	15,672
Public Houses	99	1,123
Offices including Banks	825	5,563
Hotels, Boarding Houses, etc	130	2,655
Industrial and Freight transport	1,680	14,257
Leisure, Entertainment, Caravan sites, etc	823	3,659
Garages and Petrol Stations	233	1,460
Cultural and Sporting	123	558
Education and Training	109	5,545
Public Service	428	3,152
Communications	6	12
Quarries, Mines, etc	14	238
Petrochemical	6	1,193
Religious	295	576
Health and Medical	96	3,030
Care Facilities	107	1,391
Other (including advertising)	577	1,042
Undertakings	33	4,002
Total	**6,844**	**65,128**

2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2009/10 was:

- 48.1p for properties with a rateable value up to £29,000
- 48.5p for properties with a rateable value above £29,000

2008/09 £'000	Fund Account	2009/10 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
(17,568)	Contributions Receivable	(17,992)	**3,11**
(2,281)	Transfers In	(3,550)	**4**
(12)	Other Income	-	
(19,861)		(21,542)	
12,626	Benefits Payable	13,403	**5, 11**
398	Payments to and on account of leavers	2,358	**6**
228	Administrative expenses borne by the Scheme	220	
(6,609)	**Net (Additions) / Withdrawals from dealings with members**	**(5,561)**	
	Returns on Investments		
(6,167)	Investment Income	(6,111)	**7**
68,962	Change in the market value of investments	(92,912)	**8**
493	Taxation	386	
1,009	Investment Management Expenses	1,178	
64,297		**(97,459)**	
57,688	**Net (increase) / decrease in the fund during the year**	**(103,020)**	
293,429	**Opening Net Assets of the Scheme**	**235,741**	
235,741	**Closing Net Assets of the Scheme**	**338,761**	

Pension Fund

2008/09 £'000	Net Assets Statement	2009/10 £'000	Notes
	Investment Assets		
16,371	Fixed Interest - Public Sector	22,122	
1,731	Fixed Interest - Other	846	
129,070	Equities	217,794	
58	UK Index Linked	-	
2,154	Overseas Index Linked	-	
	Managed Funds		
12,715	Property	16,375	**9,10**
29,864	Life (Equity)	45,258	
20,671	Life (Bonds)	26,059	
15,119	Open Ended Investment Contracts	1,658	
134	Money Market Instruments	139	
-	Derivatives - Forward Foreign Exchange	1,174	
227,887		**331,425**	
791	Other Investment Balances	**892**	
	Current Assets & Liabilities		
6,070	Cash Balances	6,288	
138	Contributions due from employers	201	
1,787	Other Current Assets	1,226	
(932)	Other Current Liabilities	(1,271)	
7,063		**6,444**	
235,741	**Net Assets**	**338,761**	

The Accounts of the Fund do not take into account any liability to pay pensions or other benefits in the future.

Richard Webb BA (Hons) ACA
Chief Financial Officer
28 September 2010

Note 1 General

The accounting policies and estimation techniques used in the preparation of the Pension Fund statements are consistent with those set out in pages 8 to 15. They satisfy the requirements of Section 2, of the Statement of Recommended Practice, of the Pensions SORP.

Scottish Borders Council manages and administers the Fund that provides pension and other benefits to its employees and those of the following 'scheduled' and 'admitted' bodies:

Scheduled Bodies
- Borders College
- Visit Scotland (Scottish Borders)

Admitted Bodies (with 'active' members)
- Borders College Business Consultants
- Scottish Borders Housing Association
- Borders Sport & Leisure Trust
- Jedburgh Leisure Facilities Trust
- Gala Youth Project
- Lothian and Borders Community Justice Authority
- Amey Community Limited

Admitted Bodies (with no 'active' members but pensioners and deferred pensioners)
- Scottish Borders Careers
- Heriot Watt University (formerly Scottish College of Textiles)
- Red Cross Housing Association
- Berwickshire Housing Association
- Project '80 Council Burnfoot

Teachers are not covered by the Fund as they are part of a national scheme administered by the Scottish Public Pensions Agency, an executive agency of the Scottish Government.

The Accounts of the Fund do not take into account any liability to pay pensions or other benefits in the future. These liabilities in terms of the Council as employer are covered in the FRS 17 entries and notes to the Core Financial Statements.

Investment income received has been recorded on an accruals basis. Central Support Costs have been recharged to the Fund on the basis of time spent by staff on the service. Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day. Other securities are valued at a price which is considered the most appropriate in the opinion of the investment managers. Both Managers' processes are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are invested separately from the main fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2010 was £0.843m (2008/09 £0.620m). During the year contributions of £0.124m were made. In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in the pension fund accounts.

Notes to the Pension Fund

Note 2 Actuarial Valuation

The last actuarial valuation of the Fund, based on the projected unit method, was as at 31 March 2008 and the actuary's final report was presented in February 2009. This recommends the various employers' contribution rates effective 2009/10 to 2011/12 to ensure that sufficient funds are available to pay future benefits. Each employer's contribution rate is based on a common rate plus or minus an adjustment to reflect their circumstances. In 2008/09 the common rate was 300%. As at the 31 March 2008 valuation the pension fund had a funding level of 96.5% with a deficit of £10.767m and the actuary recommended a common contribution rate of 18% (of which 1.5% represented the recovery of the deficit) of payroll for the period from 1 April 2009 to 31 March 2012, to which adjustments are made to reflect each body's circumstances. The asset value reported by the actuary at the valuation date was £299.3m. The next actuarial valuation will be as at 31 March 2011.

The main assumptions used in respect of the latest actuarial valuation of the fund are shown in the Funding Strategy Statement 2010, which will be published on the Council's website and is also available on request from the Council's Chief Financial Officer.

Note 3 Contributions Receivable

2008/09				2009/10		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
12,174	4,030	16,204	Normal	13,006	4,413	17,419
1,276	-	1,276	Special	475	-	475
-	88	88	Additional Voluntary	-	98	98
13,450	**4,118**	**17,568**	**Total**	**13,481**	**4,511**	**17,992**

Note 4 Transfers In

There were no group transfers in to the scheme during 2009/10 or 2008/09 and the total of £3.550m (2008/09: £2.281m) represents the total of transfer values in respect of individual members joining the scheme.

Note 5 Benefits Payable

2008/09 £'000		2009/10 £'000
9,060	Pension Payments	10,173
3,566	Lump Sum Death Benefits	3,230
12,626	**Total**	**13,403**

Note 6 Payments to and on account of Leavers

2008/09 £'000		2009/10 £'000
75	Contributions Returned	84
323	Individual Transfers to other Schemes	2,274
398	**Total**	**2,358**

Note 7 Investment Income

2008/09 £'000		2009/10 £'000
(757)	Income from fixed Interest Securities	(853)
(4,516)	Dividends from Equities	(4,666)
(7)	Income from Index Linked Securities	(9)
(503)	Income from Pooled Investment Vehicles	(532)
(384)	Interest on Cash Deposits	(51)
(6,167)	**Total**	**(6,111)**

Note 8 Change in the market value of investments

2008/09 £'000		2009/10 £'000
12,778	Realised	(6,633)
56,184	Unrealised	(86,279)
68,962	**Total**	**(92,912)**

Note 9 Market Value of the Scheme's Investment Assets

As at 31 March 2010 the market value of the assets under management was:-

31 March 2009		Manager	31 March 2010	
£'000	%		£'000	%
77	0.03	Internal	73	0.02
142,000	62.31	UBS	198,564	59.91
85,810	37.66	Baillie Gifford	131,614	39.71
-	-	JP Morgan	1,174	0.36
227,887	**100**		**331,425**	**100**

Note 10 Analysis of Investment Assets

2009				2010		
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
16,371	-	16,371	Fixed Interest - Public Sector	22,122	-	22,122
1,789	2,154	3,943	Fixed Interest - Other	631	215	846
42,171	86,899	129,070	Equities	50,709	167,085	217,794
			Managed Funds			
12,715	-	12,715	Property	16,375	-	16,375
29,864	-	29,864	Life - Equity	45,258	-	45,258
20,671	-	20,671	Life - Bonds	26,059	-	26,059
15,119	-	15,119	Open Ended Investment Contracts	1,658	-	1,658
134	-	134	Money Market Instruments	139	-	139
-	-	-	Derivative - Forward For Ex	1,174	-	1,174
138,834	**89,053**	**227,887**		**164,125**	**167,300**	**331,425**

As at 31 March 2010 assets valued at £330.178m were quoted on the Stock Exchange (31 March 2009: £220.669m). Assets valued at £0.073m at 31 March 2010 were unquoted (31 March 2009: £7.218m).

During 2009/10 sales of investments totalled £128.2m and purchases totalled £144.4m.

Notes to the Pension Fund

Note 10 Analysis of Investment Assets (continued)

A passive currency hedging programme, using forward foreign exchange contracts, was implemented on 1 July 2009 to hedge 50% of the currency exposure on the Fund's overseas equity investments. All contracts are traded on an over the counter basis.

The forward currency contracts outstanding at 31 March 2010 to hedge against foreign currency exposure of £85,982,432 had a market value of a gain of £1,173,791 and a maturity date of 30 June 2010.

The following value of investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2010. Each of the investments comprises units in a managed fund.

	Total £'000
UBS Life UK Equity Tracker Fund 'A' Units	45,258
UBS Life UK Corporate Bond Fund 'A' Units	26,059

Investment Transactions

	Value at 01 April 2009 £'000	Purchases at Cost & Derivative Payments £'000	Sales Proceeds & Derivative Receipts £000	Change in Market Value £'000	Value at 31 March 2010 £'000
Fixed Interest - Public Sector	16,371	13,965	(7,596)	(618)	22,122
Fixed Interest - Other	3,943	2,596	(7,013)	1,320	846
Equities	129,070	122,289	(105,179)	71,614	217,794
Managed Funds					
Property	12,715	3,968	(1,665)	1,357	16,375
Life (Equity)	29,864	-	-	15,394	45,258
Life (Bonds)	20,671	-	(1,500)	6,888	26,059
Open Ended Investment Contracts	15,119	1,583	(18,458)	3,414	1,658
Money Market Instruments	134	-	(135)	140	139
Foreign Currency Transactions	-	7,866	-	(6,692)	1,174
	227,887	**152,267**	**(141,546)**	**92,817**	**331,425**

Payments made in respect of foreign currency transactions above include £7.287m paid by way of forward foreign exchange contracts.

Note 11 Analysis of Contributions and Benefits

	Benefits Payable £'000	Contributions Receivable £'000
Scottish Borders Council	12,871	16,328
Scheduled Bodies	155	458
Admitted Bodies	377	1,206
Total	**13,403**	**17,992**

Note 12 Statement of Investment Principles

The Council approved its current Statement of Investment Principles on 2 March 2006. The Statement, defines the Fund's operational framework insofar as investments are concerned. It is reviewed periodically to ensure that it continues to reflect the needs of the Fund and the views of its stakeholders. On that same date the Council approved its first Funding Strategy Statement after consultation with all employers with an interest in the fund. The Statement defines how the fund intends to meet its financial obligations. Both these documents are published on the Council's web site and are available on request from the Council's Chief Financial Officer.

The Statement of Investment Principles and Funding Strategy have been updated and were approved by the Pensions Fund sub-committee on the 23 June 2009.

Note 13 Investment Management Arrangements

Investment Management is undertaken on behalf of the Council by two firms of investment managers, UBS Global Asset Management and Baillie Gifford & Co. The Council's passive currency hedging programme is managed by JP Morgan.

At 31 March 2010 UBS Global Asset Management managed some 59.91% of the fund, including property, bonds, UK equities and a Global Equity Fund. The UK equity portfolio is managed entirely on a passive basis. The Global Equity Fund, property and bonds are all actively managed. A performance target of 2% p.a. above benchmark over rolling three year periods has been set for active equities, 0.5% p.a. for bonds and 0.75% p.a. for property. All UBS targets are net of fees.

Baillie Gifford & Co. managed 39.71% of the fund's investments at 31 March 2010. They manage UK and overseas equities on a wholly active basis. A performance target of 1% p.a. above benchmark has been set for UK equities and 2.5% above benchmark for overseas equities. The Baillie Gifford targets are net of fees.

0.02% of the Fund was managed by Council staff at 31 March 2010, consisting of small investments held internally.

Overall the Fund generated a return of 41.5% (including the impact of the passive currency hedge) for the year to 31 March 2010, which was 4% above the benchmark. Over three years the Fund has generated an annualised return of 2.0% per annum, which outperformed the benchmark by 0.5% per annum.

Note 14 Stock Lending

As at 31 March 2010 no stock had been released to a third party under a stock lending arrangement.

Note 15 Related Party Transactions

Other than the related party transactions disclosed in Note 10 to the Core Financial Statements, there are no additional related party transactions that need to be disclosed.

Note 16 Membership Details

Under the new look Government Pension Scheme (LGPS) from 1 April 2009 a tiered contribution system has been introduced to replace the standard contribution rate of 6% and 5% (for protected manual workers). Member contributions are now based on how much of their pay falls into each earnings tier.

New eligibility conditions have also been introduced and employees must have a contract of at least 3 months duration to become a member. The majority of casual employees are therefore now excluded from joining the scheme.

Notes to the Pension Fund

Note 16 Membership Details (continued)

The following table give details of the various bodies' membership and their contribution rates.

Membership Details as at 31 March 2010	Contributors	Pensioners	Deferred Pensioners	Employer's Contribution Rate % of Pay
Scottish Borders Council	4,127	2,137	1,864	18.0%
Borders College	101	34	40	18.0%
Borders College Business Consultants	28	7	25	18.0%
Visit Scotland (Scottish Borders)	4	3	10	18.0%
Scottish Borders Housing Association	156	31	41	18.0%
Borders Sport and Leisure Trust	30	3	14	18.5%
Jedburgh Leisure Facilities Trust	3	-	1	18.5%
Gala Youth Project	-	-	2	18.0%
Scottish Borders Careers	-	1	3	0.0%
Heriot Watt University (formerly S.C.O.T.)	-	23	3	0.0%
Lothian and Borders Community				
Justice Authority	3	-	-	18.0%
Amey Community Limited	14	-	1	17.5%
Others	-	3	-	0.0%
Total	**4,466**	**2,242**	**2,004**	

Note 17 Membership Reconciliation 2009/10

Membership Reconciliation as at 31 March 2010	Contributors	Pensioners	Deferred Pensioners	Total
Number at 1 April 2009 (inc councillors)	**4,501**	**2,094**	**1,862**	**8,457**
Adjustments (late notifications etc)	(8)	3	1	**(4)**
New Members	551	-	-	**551**
Transfers to Other Schemes	(37)	-	(45)	**(82)**
Refunds of Contributions	(154)	-	-	**(154)**
Retirement of Contributing Members	(134)	134	-	**-**
Transfer to Deferred Pensioners	(274)	-	274	**-**
Re-employed Deferred Pensioners	28	-	(28)	**-**
Retirement of Deferred Pensioners	-	57	(57)	**-**
Dependants' Pensions	-	38	-	**38**
Deaths	(7)	(76)	(3)	**(86)**
Commutation (trivial pensions)	-	(8)	-	**(8)**
Ill Health Grant	-	-	-	**-**
End of Entitlement	-	-	-	**-**
Number at 31 March 2010	**4,466**	**2,242**	**2,004**	**8,712**

Note 18 Future Scheme Arrangements

The new look LGPS came into force from 1 April 2009. It remains a final salary scheme but there are a number of improvements to the benefits package including:

- A change in the accrual rate from $1/80^{th}$ pension plus $3/80^{th}$ lump sum to an improved accrual rate of $1/60^{th}$ for membership from 1 April 2009.
- Choice of improved lump sum at retirement
- Introduction of dependent partner's pension
- Increased death in service cover
- Increased flexible retirement options
- Tiered contributions

Trust Funds

The Council is trustee for more than 200 trusts and endowments. Of these 39 are registered for charitable status with the Office of the Scottish Charity Regulator (OSCR). The 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 8 to 15. 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.

In accordance with SBC's Revaluation cycle, Land and Buildings relating to Common Good and Trusts were revalued on 1 April 2009. This resulted in a revaluation gain of £0.168m which is shown within Land and Buildings on the Balance Sheet.

2008/09 £'000	Income and Expenditure Account	Charitable £'000	Other £'000	2009/10 Total £'000
	Income			
(85)	Dividends and Interest	(2)	(21)	(23)
	Expenditure			
44	Grants to Beneficiaries	1	34	35
8	Depreciation	17	-	17
(33)	**(Surplus) / Deficit for the Year**	**16**	**13**	**29**
(592)	(Surplus) b/f	(137)	(496)	(633)
(8)	Funding to Revaluation Reserve	(17)	-	(17)
(633)	(Surplus) c/f	**(138)**	**(483)**	**(621)**

2008/09 £'000	Balance Sheet	Charitable £'000	Other £'000	2009/10 Total £'000
	Fixed Assets			
358	Land and Buildings	239	269	508
27	Investments	6	21	27
6	Long term Loan	-	5	5
	Current Assets			
720	Capital Advances to the Loans Fund	51	669	720
634	Revenue Advances to the Loans Fund	137	481	618
	Current Liabilities			
(7)	Sundry Creditors	-	(1)	(1)
1,738	**Net Assets**	**433**	**1,444**	**1,877**
	Financed by			
(633)	Revenue Reserve	(138)	(483)	(621)
(817)	Capital Reserve	(109)	(708)	(817)
(288)	Revaluation Reserve	(186)	(253)	(439)
(1,738)		**(433)**	**(1,444)**	**(1,877)**

Richard Webb BA (Hons) ACA
Chief Financial Officer
28 September 2010

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 2010, for each of the funds. The accounting policies applied are those as set out in pages 8 to 15. 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.

In accordance with SBC's Revaluation cycle, Land and Buildings relating to Common Good and Trusts were revalued on 1 April 2009. This resulted in a revaluation gain of £2.263m which is shown within Land and Buildings on the Balance Sheet.

Income and Expenditure Accounts

Total 2008/09 £'000		2009/10 Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income									
(212)	Fees and Charges	(1)	-	(121)	-	-	(10)	(50)	(67)	(249)
(93)	Investment Income	-	-	(5)	(17)	(2)	(1)	(2)	(1)	(28)
(6)	Grant Income	-	(1)	-	-	-	-	-	-	(1)
(311)		**(1)**	**(1)**	**(126)**	**(17)**	**(2)**	**(11)**	**(52)**	**(68)**	**(278)**
	Expenditure									
161	Property Costs	-	-	143	1	-	14	4	146	308
62	Depreciation	1	-	36	9	-	9	21	18	94
28	Administrative Costs	-	2	13	4	1	3	4	4	31
95	Donations and Contributions	-	-	15	43	-	2	47	7	114
346		**1**	**2**	**207**	**57**	**1**	**28**	**76**	**175**	**547**
35	**(Surplus) / Deficit**	**-**	**1**	**81**	**40**	**(1)**	**17**	**24**	**107**	**269**
(1,324)	(Surplus) / Deficit b/f	(27)	(27)	(382)	(222)	(59)	(162)	(295)	(177)	(1,351)
(62)	Funding from Revaluation Reserve	(1)	-	(36)	(9)	-	(9)	(21)	(18)	(94)
-	Transfer to Capital Reserve									-
(1,351)		**(28)**	**(26)**	**(337)**	**(191)**	**(60)**	**(154)**	**(292)**	**(88)**	**(1,176)**

Common Good Funds

Balance Sheets

Total 2008/09 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2009/10								
	Fixed Assets									
3,692	Land & Buildings	13	-	2,674	450	-	721	635	1,371	5,864
8	Other Fixed Assets	-	-	3	-	-	-	2	2	7
643	**Investments**	-	-	88	434	59	-	-	-	581
5	**Long Term Loan to Third Party**	-	-	-	10	-	-	-	-	10
	Current Assets									
55	Sundry Debtors	-	-	1	4	58	7	20	6	96
272	Capital Advances to Loans Fund	-	-	53	6	1	97	66	49	272
1,364	Revenue Advances to Loans Fund	27	26	394	189	2	148	302	91	1,179
-	Stock	-	-	-	-	-	-	-	-	-
	Current Liabilities									
(57)	Sundry Creditors	-	-	(55)	-	-	(1)	(30)	(10)	(96)
5,982	**Net Assets**	**40**	**26**	**3,158**	**1,093**	**120**	**972**	**995**	**1,509**	**7,913**
	Financed by									
(1,351)	Revenue Reserve	(27)	(26)	(337)	(191)	(59)	(155)	(292)	(88)	(1,175)
(1,121)	Capital Reserve	-	-	(279)	(455)	(61)	(97)	(116)	(49)	(1,057)
(3,510)	Revaluation Reserve	(13)	-	(2,542)	(447)	-	(720)	(587)	(1,372)	(5,681)
(5,982)		**(40)**	**(26)**	**(3,158)**	**(1,093)**	**(120)**	**(972)**	**(995)**	**(1,509)**	**(7,913)**

Richard Webb BA (Hons) ACA
Chief Financial Officer
28 September 2010

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.

	Balance at 1 April 2009 £'000	Movement during the year £'000	Balance at 31 March 2010 £'000
Duns	-	-	-
Galashiels	-	-	-
Hawick	(289)	10	(279)
Jedburgh	(503)	48	(455)
Kelso	(67)	6	(61)
Lauder	(97)	-	(97)
Peebles	(116)	-	(116)
Selkirk	(49)	-	(49)
Total	**(1,121)**	**64**	**(1,057)**

Group Accounts

Introduction

The Statement of Recommended Practice (SORP) has required the preparation of group accounts from 2005/06. This reflected an increasing tendency of local authorities to use a range of service delivery vehicles to facilitate the discharge of their functions which, whilst technically independent, are effectively under the authority's control. Group accounts therefore report on the material extent and implications of the authority'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. give 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, fall to be treated as subsidiaries. Summary financial results for these appear on pages 73 and 74 to 76 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 2009/10:

- 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. Because of, principally, the pensions deficits of the Police and Fire & Rescue Boards, the deficit of £3.982m on the Council's single entity Income and Expenditure Account becomes a group deficit of £16.253m.

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 2009/10.

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

- **Group Income and Expenditure Account**: This account summarises the Group's Income and Expenditure for the year
- **Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit:** This statement shows how the surplus or deficit on the Council's single entity Income and Expenditure Account for the year reconciles to the surplus or deficit for the year on the Group Accounts
- **Group Statement of Total Recognised Gains and Losses:** This statement brings together all the gains and losses for the Group for the year
- **Group Balance Sheet:** This statement sets out the overall financial position of the Group at 31 March 2010
- **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 Income and Expenditure Account

2008/09 As Restated Net Expenditure £'000		2009/10 Gross Expenditure £'000	2009/10 Income £'000	2009/10 Net Expenditure £'000
98,276	Education	106,702	(4,751)	101,951
8,213	General Fund Housing Services	30,014	(27,007)	3,007
13,524	Cultural and Related Services	14,946	(1,506)	13,440
17,825	Environmental Services	21,314	(3,204)	18,110
14,991	Roads and Transport Services	20,813	(5,792)	15,021
3,027	Planning and Development Services	8,343	(2,983)	5,360
56,899	Social Work	81,205	(15,567)	65,638
7,909	Central Services	10,033	(1,864)	8,169
3,677	Non-Distributed	1,368	-	1,368
2,112	Exceptional Items	307	-	307
128	Common Good	547	(250)	297
53	Trust Funds	52	-	52
11,670	Police	12,037	-	12,037
9,039	Fire & Rescue	8,646	-	8,646
(1,640)	Share of operating result of associates	(1,028)	-	(1,028)
245,703	**Net Cost of Services**	**315,299**	**(62,924)**	**252,375**
(289)	(Profit) / Loss on disposal of assets			22
(74)	Surplus on Significant Trading Operation			294
11,958	Interest payable and similar charges			11,899
(2,002)	Interest receivable			(620)
20,440	Interest costs on pensions			18,910
(18,972)	Return on pension assets			(14,281)
305	Share of Associates' Interest Payable			302
(107)	Share of Associates' Interest and Investment Income			(8)
11,911	Share of Associates' Pension Interest Cost and Expected Return on Pension Assets			12,717
268,873	**Net Operating Expenditure**			**281,610**
	Income			
(158,346)	Revenue Support Grant			(170,045)
(42,287)	Non-Domestic Rates Pool for Scotland			(46,076)
(48,770)	Council Tax			(49,236)
(249,403)	**Total Income**			**(265,357)**
19,470	**(Surplus) / Deficit for the year**			**16,253**

Reconciliation of the Single Entity Surplus or Deficit for the Year To The Group Surplus or Deficit

2008/09 As Restated £'000	2008/09 As Restated £'000		2009/10 £'000	2009/10 £'000
	9,020	(Surplus) / Deficit on the Council's single entity Income and Expenditure Account for the Year		3,982
		Add;		
		(Surplus) / Deficit arising from other entities included in the group accounts:-		
		Subsidiaries		
35		Common Good	269	
(33)		Trust Funds	29	
	2			298
		Associates		
(17)		Borders Sport and Leisure Trust	(18)	
(1)		Jedburgh Leisure Facilities Trust	-	
8,635		Lothian and Borders Police	9,099	
1,831		Lothian and Borders Fire & Rescue	2,892	
	10,448			11,973
	19,470	**Group (Surplus) / Deficit for the Year**		**16,253**

Group Statement of Total Recognised Gains and Losses

2008/09 As Restated £'000		2009/10 £'000
19,470	Net (surplus) / deficit for the year	16,253
(37,062)	(Surplus) / deficit on revaluation of fixed assets	(12,035)
27,048	Actuarial (gains) / losses on pension fund liabilities and assets	168,949
4,658	Any other (gains) / losses recognised	(3,025)
14,114	Total recognised (gains) / losses for the year	**170,142**

Group Balance Sheet

2009 As Restated £'000	Net Assets	2010 £'000	2010 £'000
907	Intangible Assets		1,012
	Tangible Fixed Assets		
	Operational		
267,424	Land and Buildings	325,125	
16,767	Vehicles, Plant, Furniture and Equipment	17,376	
67,692	Infrastructure	72,240	
	Non Operational		
43,584	Assets Under Construction	45,060	
7,176	Assets Awaiting Disposal	6,980	
402,643			466,781
2,888	Long Term Debtors	406	
670	Other	608	
3,558			1,014
407,108	**Total Long Term Assets**		**468,807**
	Current Assets		
825	Stores, Materials and Work in Progress	725	
28,791	Debtors	30,749	
(6,330)	less Bad Debt Provision	(6,706)	
28,865	Short Term Deposits	9,483	
3,597	Cash & Bank	247	
55,748		34,498	
	Current Liabilities		
(3,435)	Provisions within 12 months	(1,498)	
(45,263)	Creditors	(41,515)	
(7,271)	Leasing liability Repayable within 12 months	(1,575)	
(3,361)	Borrowings Repayable within 12 months	(8,276)	
	Due to Trust Funds & Common Good	1	
(1,208)	Due to Pension Fund	(938)	
(60,538)		(53,801)	
(4,790)	**Net Current Assets**		**(19,303)**
402,318	**Total Assets less Current Liabilities**		**449,504**
(165,104)	Long Term Borrowing		(165,010)
(124)	Provisions		-
-	Deferred Liabilities		-
(36,743)	Long Term Leasing Liability		(63,601)
(4,406)	Government Grants & Contributions Unapplied		(3,325)
(65,885)	Government Grants and Contributions Deferred		(80,011)
(171,524)	Share of Associates' Net Liabilities		(265,573)
(283,494)	Pension Liability	(467,812)	
212,847	Pension Assets	313,572	
			(154,240)
(112,115)	**Net Assets/(Liabilities)**		**(282,256)**

Group Balance Sheet

2009 As Restated £'000	Financed by	2010 £'000	2010 £'000
(10,949)	General Fund Balance	(10,128)	
(39)	Corporate Repairs and Renewals Fund	(49)	
(1,660)	Insurance Fund	(1,568)	
(7,248)	Capital Fund	(3,502)	
(19,896)			**(15,247)**
70,647	Pensions Reserve		**154,240**
50,751			**138,993**
(40,382)	Revaluation Reserve	(50,351)	
(71,573)	Capital Adjustment Account	(71,124)	
9,513	Financial Instruments Adjustment Account	8,955	
(102,442)			**(112,520)**
(3,798)	Revaluation Reserve of Group Entities	(6,118)	
167,604	Profit and Loss and Other Reserves of Group Entities and Share of Associates Profit and Loss and Other Reserves	261,901	
163,806			**255,783**
112,115			**282,256**

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 28 September 2010.

Richard Webb BA (Hons) ACA
Chief Financial Officer
28 September 2010

Group Cash Flow Statement

2008/09 As Restated £'000		2009/10 £'000	2009/10 £'000
(15,178)	**Net cash inflow from revenue activities**		**(16,212)**
	Servicing of Finance		
	Cash Outflows		
8,966	Interest paid	8,794	
338	Interest element of finance lease rental payments	2,998	
	Cash Inflows		
(2,706)	Interest received	(188)	
(165)	Interest element of finance lease rental receipts	(142)	
6,433			11,462
	Capital Activities		
	Cash Outflows		
36,446	Purchase of fixed assets	42,147	
	Cash Inflows		
(614)	Sale of fixed assets	(548)	
(20,379)	Capital grants received	(14,628)	
(450)	Other capital cash payments	-	
15,003			26,971
6,258	**Net Cash (inflow)/outflow before financing**		**22,221**
(12,613)	**Management of liquid resources**		(19,486)
	Financing Activities		
	Cash Outflows		
11,977	Repayments of amounts borrowed	166	
78	Premiums on premature repayment of loans	218	
302	Capital element of finance lease rental payments	7,591	
	Cash Inflows		
(6,707)	New loans raised	(5,000)	
-	Loans discount received	(26)	
(110)	Capital element of finance lease rental receipts	(2,334)	
5,540			615
(815)	**Net (Increase)/Decrease in Cash**		**3,350**

Represented by

1	(Increase)/Decrease in Cash in Hand	-
(816)	(Increase)/Decrease in Bank Balance	3,350
(815)		**3,350**

Notes to the Group Accounts

Note 1 Group Income and Expenditure Account

Reporting Authority Adjustments to align with UK GAAP

A number of adjustments are required to enable the details contained within the Council's Income and Expenditure Account to align with the UK GAAP 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 deficit 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 24 to 61 are also valid for the Group Income and Expenditure Account and are therefore not replicated here.

Note 2 Group Balance Sheet

Effect of Consolidation

The Group Balance Sheet consolidates the assets and liabilities of the Council and the Common Good and Trust Funds. It also includes the Council's share of the associates' net assets or net liabilities. The appropriate shares of surplus or deficits are contained in the relevant group reserves.

2009 As Restated				2010		
Scottish Borders Council £'000	Common Good Funds £'000	Trust Funds £'000	**Fixed Assets at Net Book Value**	Scottish Borders Council £'000	Common Good Funds £'000	Trust Funds £'000
263,374	3,692	358	Land and Buildings	318,753	5,864	508
16,759	8	-	Vehicles, Plant, Equipment etc.	17,370	6	-
67,692	-	-	Infrastructure	72,240	-	-
43,584	-	-	Non Operational	45,060	-	-
7,176	-	-	Surplus Assets, held for disposal	6,980	-	-
398,585	**3,700**	**358**	**Total**	**460,403**	**5,870**	**508**
		402,643				**466,781**

2009 As Restated £'000	Long-Term Investments/Liabilities	2010 £'000
-	Scottish Borders Council	-
(171,524)	Scottish Borders Council - Share of Net Assets/(Liabilities) of Associates	(265,573)
643	Common Good Funds	581
27	Trust Funds	27
(170,854)	**Total**	**(264,965)**

2009 As Restated £'000	Sundry Debtors	2010 £'000
22,406	Scottish Borders Council	23,948
55	Common Good Funds	96
-	Trust Funds	-
22,461	**Total**	**24,044**

2009 As Restated £'000	Sundry Creditors	2010 £'000
(45,199)	Scottish Borders Council	(41,418)
(57)	Common Good Funds	(96)
(7)	Trust Funds	(1)
(45,263)	**Total**	**(41,515)**

Note 3 Group Cash Flow

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

2008/09 As Restated £'000		2009/10 £'000	2009/10 £'000
19,470	**Deficit for the year**		**16,253**
	Non-Cash Transactions		
(18,170)	Depreciation	(21,626)	
2,438	Amortisation of grants	3,229	
497	FRS17 Pension adjustments	1,088	
(13,198)	Other non-cash items	(11,222)	
(28,433)			(28,531)
	Items on an Accruals Basis		
45	Movement in stocks	(101)	
687	Movement in debtors	(952)	
(1,424)	Movement in creditors	6,520	
910	Movement in other provisions	2,061	
218			7,528
	Items treated as Servicing of Finance		
(8,966)	Interest paid	(8,794)	
(338)	Interest element of finance lease rental payments	(2,998)	
2,706	Interest received	188	
165	Interest element of finance lease rental receipts	142	
(6,433)			(11,462)
(15,178)	**Net cash inflow from revenue activities**		**(16,212)**

Notes to the Group Accounts

Note 4 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 two elected Councillors on the Trust's Board of fourteen members and therefore a 14.3% share of the net operating result and net assets has been consolidated.

In 2009/10 the Trust's net operating result was a surplus of £129,604. A 14.3% share results in £18,533 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 six members, with a 16.7% share of the net operating result and the net assets being consolidated.

In 2009/10 the Trust's net operating result was a deficit of £2,802 of which £468 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 eighteen. 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 2009/10 was 12.2%. The Board's net operating result in 2009/10 was a deficit of £74.6m and a share of 12.2% results in £9.101m being consolidated. At 31 March 2010 the Board have an overall net liability of £1,668.8m and a share of 12.2% results in £203.594m 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 eighteen. 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 2009/10 was 17.2%. The Board's net operating result in 2009/10 was a deficit of £16.8m and a share of 17.2% results in £2.9m being consolidated. At 31 March 2010 the Board have an overall net liability of £361.8m and a share of 17.2% results in £62.2m 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 5 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 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. Currently the Council receives significantly more from the pool than it contributes.

- **Specific Grants:** the final part of AEF. As the name suggests these grants are paid to support specific services and can enable the Scottish Government to influence service provision more directly than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets.

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 and are monitored and reported upon throughout the year.

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

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are schools, major roadworks, social work and leisure facilities, vehicles and equipment. Capital expenditure is financed from a number of sources. The principal one is long-term borrowing, mainly from the Public Works Loan Board, together with capital receipts, capital grants and contributions and CFCRs (Contributions from Current Revenue).

Capital Fund: 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. Unapplied developer contributions have now been shown within Long Term Creditors and 2009 Balance Sheet has been restated.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects. There is currently a reduction in the number of specific capital grants with a movement toward more general or 'block' capital grants, which gives the Council wider discretion in their use.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building.

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

Common Good Funds: the Council administers the Common Good Funds for 8 towns within its area, namely Duns, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk. The Common Good Funds in the Scottish Borders have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR).

Contingent Liability: where an obligation is possible but does not satisfy the requirements for a provision. They are usually expressed as a note to the Core Financial Statements.

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. stocks, debtors and cash.

Glossary of Terms

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

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

Due to or from Loans Fund: 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 these various funds. The Loans Fund pays interest for the use of these internal balances.

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.

FRS 17: the Financial Reporting Standard (FRS) approved by the Accounting Standards Board, which lays down the disclosure and reporting requirements for Retirement Benefits, in the Council's case principally pensions.

General Fund: the main fund of the Council that covers most areas of activity, the principal exclusions being the Pension Fund, the Loans Fund and the Common Good Funds.

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

IFRS: International Financial Reporting Standards. The Council's accounts are governed by IFRS from 2009/10 with respect to PPP/PFI schemes and fully from 2010/11.

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 and roads and services into industrial estates.

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

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.

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 50 years.

Non-Operational Assets: these are defined as investment properties, assets under construction and surplus assets held for disposal.

Operational Assets: assets owned by the Council and used directly in the pursuit of the Council's strategy or service objectives, e.g. land, buildings, vehicles and plant.

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 a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested. In terms of benefits paid it is classed as a 'defined benefit' scheme and members' benefits are set out in statute.

Provision: a provision is made in the accounts when three tests are satisfied, namely there is a present obligation arising from a past event, it is expected that there will be a transfer of economic benefits need to settle it and that a reliable estimate can be made.

Rents, Fees and Charges: income raised locally for a range of Council services; examples include home care charges, commercial property rents, hall lets and library charges.

Requisitions: the Council pays a contribution, known as a requisition, to the Lothian and Borders Joint Boards in respect of Police and Fire and Rescue services provided by the Boards in the Scottish Borders.

Reserves: sometimes referred to as ‘Balances’ they are the accumulated surpluses generated by the various funds. Within the General Fund a proportion of the total can be earmarked for specific purposes.

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 and grants and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

STRGL: the Statement of Total Recognised Gains and Losses brings together all the gains and losses for the Council for the year and shows the total increase in its net worth.

Trading Operations: services that are 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 over 200 trust funds, around 40 of which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR).

UK GAAP: Generally Accepted Accounting Principles in the UK. Recent years have seen local authority accounting becoming fully GAAP compliant.

Virement: because circumstances change, budgets need to remain flexible. Virement is the 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.

Auditor’s Report

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

I certify that I have audited the financial statements of Scottish Borders Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund account, the Trust Funds accounts, the Common Good Funds accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body’s corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword by the Chief Financial Officer. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Financial Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Scottish Borders Council and its group as at 31 March 2010 and the income and expenditure of Scottish Borders Council and its group for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Gillian Woolman FCA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

28 September 2010