

SCOTTISH BORDERS COUNCIL

STATEMENT OF ACCOUNTS

2007/08



Scottish Borders Council

Statement of Accounts 2007/08

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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 Director of Corporate Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets. The authority has developed a number of procedures in furtherance of this requirement and is subject to audit as to their effectiveness.

The Director of Corporate Resources' responsibilities

The Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts. In terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), these statements are required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2008.

In preparing this Statement of Accounts, the Director of Corporate Resources has:-

- kept proper accounting records which were up to date
- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Statement on the System of Internal Financial Control

This statement is given in respect of the 2007/08 Accounts for Scottish Borders Council and its group entities. As Director of Corporate Resources 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.

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.

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, sub-committees and officers, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, this includes:-

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 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

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

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.

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.

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

A 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.

The Council has an Internal Audit section, which operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government. The Chief Internal Auditor (CIA) reports directly to the Director of Corporate Resources and to the Audit Committee. The work of the Internal Audit section 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 CIA provides the Audit Committee with a report on Internal Audit activity in the Council. The Internal Audit Annual Report 2007/08 presented to the June Audit Committee meeting included the CIA's independent opinion on the adequacy and effectiveness of the Council's system of internal financial control as set out in the CIPFA guidance.

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

- The work of the Internal Auditors as described above;
- The External Auditors' reports;

Statement on the System of Internal Financial Control

- 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 Corporate and Business plans, implementation of change programmes to achieve efficiency savings, review of treasury management strategy, and improvements arising from implementation of audit recommendations, in particular in relation to procurement activity; and
- 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.

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.

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

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.
- Relevant Improvement Actions in the Council's Improvement Plan.

A review and development of written procedures for significant financial processes.

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

Project management to deliver the Council's ambitious capital financial plans.

Full implementation of the Council's approved Corporate Procurement Strategy.

Budget monitoring and financial planning within the Technical Services department.

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:-

- The Treasurers' Assurance Statements on the standard of internal financial control at Lothian and Borders Fire and Rescue Board and Lothian and Borders Police Board;
- The External Auditor's report on the accounts of the Borders Sports and Leisure Trust; and
- The Independent Examiner's Report on the accounts of the Jedburgh Leisure Trust.

John I Campbell
Director of Corporate Resources
26 June 2008

Foreword by the Director of Corporate Resources

Introduction

The format of the Statement of Accounts for 2007/08 is again significantly different to previous years. The Code of Practice on Local Authority Accounting in the UK 2007 (a Statement of Recommended Practice) contains a number of major changes which reflect the movement of local authority accounts towards UK GAAP (Generally Accepted Accounting Principles) and International Financial Reporting Standards. The main changes to the 2007/08 Statement of Accounts are explained on pages 6 and 7.

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 2007/08

The original budget for 2007/08 was approved by the Council in February 2007 and planned net expenditure totalled £224.6m. After taking into account Revenue Support Grant and our share of the Non-Domestic Rates Pool from the, then, Scottish Executive, which totalled £173.7m (77.3% of total funding), together with a planned contribution from the General Fund Reserve of £1.936m and a contribution from the sale of surplus assets of £0.750m, the Council planned to raise £48.2m through the Council Tax. Each £1 was estimated to raise £44,475, therefore a 'Band D' Council Tax of £1,084 was levied, an increase of 1.9%. After this increase, the Council Tax for Scottish Borders continued to be among the lowest in mainland Scotland in 2007/08. 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 £222.8m.

Revenue Outturn 2007/08

Net operating expenditure of £224.3m, on a UK GAAP basis, led to a deficit on the Income and Expenditure Account of £0.637m. This includes a provision of £2.143m in respect of the Council's voluntary severance / early retirement scheme which is shown as an exceptional item in the Income and Expenditure Account. When the relevant adjustments are made actual outturn was £224.3m against a final budget of £224.9m.

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 is

2007 £'000		2008 £'000
(2,093)	Earmarked Reserves	
(1,936)	Devolved School Management	(1,606)
(4,511)	Support for the following year's budget	-
	Specific Departmental Reserves	(6,399)
(8,540)		(8,005)
(5,935)	Non Earmarked Reserve	(6,274)
(14,475)	Total General Fund Reserve	(14,279)

The net decrease in the General Fund Reserve is £0.196m.

Foreword by the Director of Corporate Resources

The Council's Financial Strategy identifies the optimum level of reserves available 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 £4.5m and £9.0m at 2007/08 levels). The Reserve not earmarked for specific purposes at £6.274m is within that range. £8.005m of the Reserve is earmarked for specific purposes and will be spent either in 2008/09 or future financial years.

Significant Trading Operation

As the Council's only significant trading operation, the roads trading operation (SBcContracts) has a statutory obligation to at least break even over rolling three-year periods. During 2007/08 a net surplus of £0.344m was achieved and over the three-year period the surplus totalled £1.002m.

Capital Expenditure and Debt Outstanding

In 2007/08 the Council incurred capital expenditure totalling £40.6m. An analysis of capital expenditure and its financing can be found on page 28. 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 £172.6m at 31 March 2008 and there was a further improvement in the average rate of interest paid on outstanding debt to 5.09% a reduction of 0.35% from 2006/07. During the year, £47.9m of PWLB loans were repaid prematurely and replaced with other PWLB loans.

Group Accounts

The Group Accounts on pages 62 to 72 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 and Rescue Board which in the very long term will fall on the constituent Councils through the requisition mechanism.

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. 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 2007/08 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. The Council's actuary examines the long-term pension liabilities and discounts them to present value. This is then compared with a fair valuation of the pension assets giving either a net pension asset or liability. The Balance Sheet shows both the pension asset and the pension liability, together with the Pensions Reserve. As there is a net pension liability there is a debit balance on the Pensions Reserve. The Statement of Movement on the General Fund Balance contains a transfer to the Pensions Reserve, which ensures that the effect of FRS 17 is neutral on Council Tax levels.

Thanks

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

John I Campbell
Director of Corporate Resources
26 June 2008

The Main Changes to the Accounting Statements

As the Director's Foreword suggests, the Statement of Accounts for 2007/08 contain some significant changes to previous years as local authority accounting moves further into line with UK GAAP (Generally Accepted Accounting Practice) and towards International Financial Reporting Standards. Those changes are contained in the Code of Practice on Local Authority Accounting in the UK (a Statement of Recommended Practice), 2007 Edition, known as 'the SORP'. The major changes fall into two areas.

Capital Accounting and Revaluation

The Fixed Asset Restatement Account and Capital Financing Account have been replaced by a Revaluation Reserve (which is compliant with GAAP) and a Capital Adjustment Account. Because it was accepted that some authorities were not able to identify and isolate relevant valuation data, the SORP requires that the opening balance on the Revaluation Reserve at 1 April 2007 is nil. Therefore the closing balances on the Fixed Asset Restatement Account and the Capital Financing Account at 31 March 2007 are restated as the opening balance on the Capital Adjustment Account;

	£000
Closing Balances at 31 March 2007	
- Fixed Asset Restatement Account	20,026
- Capital Financing Account	(96,141)
	(76,115)
Restated Opening Balances at 1 April 2007	
- Revaluation Reserve	-
- Capital Adjustment Account	(76,115)
	(76,115)

Financial Instruments

The second area of major change relates to 'financial instruments' and the effect on the SORP of Financial Reporting Standards 25, 26 and 29. The following areas of the Council's financial instruments are affected:-

- Premiums and Discounts incurred on the early repayment of debt
- Loans with 'stepped interest rates'
- 'Soft Loans'
- Financial Guarantees

Premiums and Discounts

As part of the Council's proactive treasury management strategy there have been occasions where loan debt has been repaid prematurely, usually to facilitate re-financing at more attractive rates of interest. These premature repayments usually incurred a premium or, on occasion, earned a discount. Up to and including the 2006/07 accounts, the net premiums were held on the Balance Sheet as Deferred Premiums on Early Repayment of Debt and charged to the Income and Expenditure Account over the period of the replacement borrowing. At 31 March 2007 net premiums totalled £5.618m. The 2007 SORP requires that these premiums be de-recognised and written off to the General Fund Balance. This action, in isolation, would have a direct and significant effect on balances and hence on future Council Tax levels. The Scottish Government therefore put in place Statutory Guidance that enabled an overall neutral effect on balances / Council Tax by a compensating adjustment and introducing the Financial Instruments Adjustment Account.

Therefore the opening balances at 1 April 2007 are effectively restated. From 2007/08 onwards the balance of £5.618m will be written off to the General Fund Balance in line with existing schedules, with a charge of £159k in 2007/08.

The Main Changes to the Accounting Statements

In terms of debt re-scheduling carried out during 2007/08, there was a very small net discount and this has been credited to the Income and Expenditure Account in 2007/08. Given changes made by the Public Works Loan Board in late 2007 to the premium / discount methodology, opportunities for further debt re-scheduling are likely to be very limited.

Loans with stepped interest rates

In the past the Council has replaced some fixed interest rate loans with loans known as LOBOs – Lenders Option, Borrowers Option. These loans have an interest rate fixed for a period, typically two or three years, following which the lender can exercise their option to change the interest rate for the remainder of the loan term. The borrower can exercise their option to repay the loan if they are dissatisfied with the lender's proposals. Up to and including 2006/07 the interest charged to the Income and Expenditure Account was in line with that paid to the lender, i.e. less in the earlier years and more in the latter years. The 2007 SORP requires that the interest charged to the Income and Expenditure Account is calculated using an 'effective interest rate' which in practical terms ensures that the interest charged is 'smoothed' over the term of the loan.

An effective interest rate calculation is done for each 'stepped LOBO' which re-measures the reported amount of the loans at 31 March 2007. In total the reported value of the loans was increased by £1.069m and adjustments were required to charge the General Fund Balance with the increased value. In a similar way to the premiums and discounts the application of the Statutory Guidance negates the effect on balances / Council Tax, again using the Financial Instruments Adjustment Account. The balance on the Financial Instruments Adjustment Account will be effectively reduced over the remaining term of the loans as the balance of loans outstanding reduces over time to the original value.

Soft Loans

Loans given at less than market rates of interest or even interest free are often termed 'soft loans'. Local authorities sometimes grant these to local bodies to encourage development in certain policy areas. Any soft loans outstanding at 31 March 2007 have to be re-stated to fair value. For example the fair value of a loan of £50,000 given interest free will be less than £50,000 because of the interest foregone. A de minimis level of £10,000 has been applied to such loans. At 31 March 2007 the Council had only one such loan for £70,000 repayable at 31 March 2008.

The difference between the nominal value and the fair value of the loan is charged to the Income and Expenditure Account in line with the requirements of the SORP and then reversed out of the Statement of Movement on the General Fund Balance as per the Statutory Guidance in order to maintain a neutral effect on balances / Council Tax.

Financial Guarantees

Local authorities on occasions guarantee loan repayments for certain bodies. For any such guarantees in place after 2006/07 a view has to be taken on the likelihood of the guarantee being called in. A sum equal to the amount of the guarantee multiplied by the percentage likelihood of it being called in has to be charged to the Income and Expenditure Account.

The Council has one material guarantee in respect of the PWLB loan taken out by the Eyemouth Harbour Trust. As this guarantee was in place before 2006/07 no accounting entries are required but the item remains as a contingent liability and a note to the Balance Sheet.

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 for Great Britain, (ACOP), (2007 Edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) LA SORP Board. This statement seeks to identify the accounting principles that underlie the accounts and to indicate any significant variations to past practice. The accounting statements contain some significant changes as they become compliant with UK GAAP. The principal changes are the replacement of the Fixed Asset Restatement Account and Capital Financing Account with a Revaluation Reserve and Capital Adjustment Account and a change in the treatment of Financial Instruments in terms of Financial Reporting Standards 25, 26 and 29. The section entitled 'The Main Changes to the Accounting Statements' on pages 6 and 7 describes the changes.

General Principles

The accounting statements are prepared on the historic cost convention, modified by the revaluation of certain categories of assets and on an accruals basis. 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.

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.

Government Grants

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 2008.

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 the accounts fairly. 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

Intangible assets consist only of purchased software, which is capitalised at cost and will be written off to revenue over its estimated economic life.

Accounting Policies

Accounting for Fixed Assets

From 2007/08 the Fixed Asset Restatement Account and Capital Financing Account have been replaced by a Revaluation Reserve and Capital Adjustment Account. In keeping with the 2007 SORP the opening balance of the Revaluation Reserve is nil and the opening balance on the Capital Adjustment Account equates to the closing balances, at 31 March 2007, of the Fixed Asset Restatement Account and the Capital Financing Account.

Fixed assets are valued on the bases recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

The following bases have been adopted for the valuation and 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 and is subject to a five year rolling revaluation.

Buildings including industrial properties are written off over their estimated life and are subject to a five year rolling revaluation programme.

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.

Non Operational Assets

Depreciation is not charged on assets under construction until they become operational.

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.

Receipts from the sales of fixed assets are either credited to the Capital Fund or treated as unapplied capital receipts.

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

The following disclosures relate to finance leases

The amounts of obligations (net of finance charges allocated to future periods) are analysed between:-

- Amounts payable in the next year (2008/09)
- Amounts payable in the second to fifth years inclusive, from the balance sheet date
- Aggregate amounts payable thereafter

The aggregate finance charges allocated for the period in respect of finance leases.

There are no finance leases entered into with commencement dates after the year end.

Accounting Policies

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 58 to 61.

Operating Leases

Current annual operating lease rentals have been charged to cost of services within the Income and Expenditure Account.

Valuation of Stock

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

Central Support Services and Office Accommodation Costs

These 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

Pension Funds

The Council administers a Pension Fund in terms of the Local Government Superannuation (Scotland) Act 1972 for its own employees and for the employees of certain other "Admitted Bodies". Details of the fund are given on pages 52 to 57. The market values of the Fund's investments are based on closing mid-market prices on 31 March 2008. Teaching staff participate in the Teachers Pension Scheme which is managed by the Scottish Public Pensions Agency, an executive agency of the Scottish Government.

In terms of the Accounting Code of Practice, the Accounts contain full accounting entries in respect of the FRS 17 treatment of pension costs, together with associated notes. The Pensions Reserve ensures that there is no overall effect on the Council Tax.

Improvement Grants made to Third Parties

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

Accounting for Income

Credit has been taken in the various revenue accounts for income received during the year. At the close of the financial year, provision has been made for items of income due but not received. These debts have been specifically provided for when the exact amount is known. In other cases, estimates of the sums due have been accrued. An assessment of invoices rendered and still outstanding has been carried out and provision has been made where recovery is doubtful. Arrears which have been identified as irrecoverable are written off on a regular basis throughout the year and specific provision made in respect of doubtful debts. Where grants have been received and the relevant expenditure has not been incurred before 31 March 2008, the grants have been included in the Balance Sheet as "Grants Deferred", with the agreement of the grant providers, to be matched with the relevant expenditure in 2008/09.

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

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 Policies

Accounting for Financial Instruments

The 2007/08 accounts saw the introduction of the principles of FRS25, FRS26 and FRS29 into the local authority SORP. The changes arising from this are not retrospective to the 2006/07 comparative accounts and any restatements of financial instruments are treated as a prior period adjustment. The main areas of change are as follows:-

- Premiums on premature debt redemption outstanding at 31 March 2007 (£5.618m) have been 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 Capital Adjustment Account. The annual premium charge will be written down from the Capital Adjustment Account.
- All debt instruments have re-measured at amortised cost. 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.
- Any soft loans issued by the Council (those carrying a below market rate of interest) have been 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.
- Impairment and uncollectability of financial assets – financial assets have been re-measured to allow for any impairment or likely non-collection. For this Council there has been no material impact on any financial asset.
- 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.

With effect from 1 April 2007 any new financial instrument transactions will need to be compliant with the requirements of the SORP, although the Statutory Guidance will reverse some of the bottom line impact arising from these changes. For example any new debt re-scheduling exercises which give rise to a premium or discount will require the premium or discount to be written off to the Income and Expenditure Account immediately. Statutory Guidance will then require the impact to be reduced by reference to a set of strict criteria.

Income and Expenditure Account

The Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the year.

2006/07		2007/08			Notes
Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000	
4,625	Chief Executive	5,133	(301)	4,832	2
2,935	Corporate Resources	7,101	(3,521)	3,581	
94,705	Education & Lifelong Learning	112,222	(13,505)	98,717	
3,677	Planning & Economic Development	8,926	(4,170)	4,756	
50,855	Social Work	76,610	(24,153)	52,457	
32,384	Technical Services	43,151	(10,819)	32,332	
483	Corporate Projects	667	-	667	
414	Other	19,442	(18,940)	502	
(6,338)	Non-distributed costs	(100)	-	(100)	
-	Exceptional items	2,143	-	2,143	
183,740	Services provided by the Council	275,295	(75,408)	199,887	
11,543	Police	11,684	-	11,684	2
7,231	Fire and Rescue	7,118	-	7,118	
202,514	Net Cost of Services	294,097	(75,408)	218,689	2
226	(Gain)/loss on disposal of assets			18	
(686)	Roads Trading Operation surplus			(302)	6
9,306	Interest payable and similar charges			8,981	
(1,350)	Interest receivable			(1,735)	
16,542	Interest costs on pensions			18,359	29
(17,739)	Return on pension assets			(19,702)	29
208,813	Net Operating Expenditure			224,308	
	Income				
(126,117)	Revenue Support Grant			(134,663)	
(40,532)	Non-Domestic Rates Pool for Scotland			(40,054)	
(46,565)	Council Tax			(48,954)	
(213,214)	Total Income			(223,671)	
(4,401)	(Surplus) or deficit for the year			637	

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.

2006/07 £'000		2007/08 £'000
(13,958)	Opening balance on General Fund	(14,475)
(4,401)	(Surplus) or deficit on Income and Expenditure Account for the year	637
3,884	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 14)	(441)
(14,475)	Closing balance on General Fund	(14,279)
	Analysis of the General Fund Balance	
(2,093)	Devolved School Management	(1,606)
(1,936)	Support for the following year's budget	-
(4,511)	Specific Departmental Reserves	(6,399)
(8,540)	Earmarked element	(8,005)
(5,935)	Non earmarked element	(6,274)
(14,475)	Total	(14,279)

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 13.

2006/07 £'000 Restated		2007/08 £'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 :-	
(11,393)	Depreciation and impairment of assets	(17,298)
840	Government Grants Deferred amortisation matching depreciation and impairments	1,912
(227)	Net loss on disposal of fixed assets	(18)
-	Amounts by which finance costs calculated in accordance with the SORP are different from the finance costs calculated in accordance with statutory requirements	5
(3,999)	Net charges made for retirement benefits in accordance with FRS17	(9,176)
(14,779)		(24,575)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on General Fund Balance :-	
7,840	Statutory provision for repayment of debt	9,231
1,492	Capital expenditure charged to General Fund	1,649
9,446	Employer's contribution payable to the pension fund	11,208
18,778		22,088
	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 :-	
(115)	Net transfers to or (from) other reserves	2,046
(115)		2,046
3,884	Net adjustment to be debited/(credited) to the General Fund	(441)

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 increase 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.

2006/07 £'000		2007/08 £'000
(4,401)	(Surplus) or deficit on the Income and Expenditure Account	637
(6,240)	(Surplus) or deficit arising on revaluation of assets	(7,229)
(9,712)	Actuarial (gains) or losses on Pension Fund assets and liabilities	(6,790)
(2,611)	Any other (gains) and losses	(6,614)
(22,964)	Total recognised (gains) / losses for the year	(19,996)

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 2007 has been restated per note 1.

2007 £'000 Restated	Net Assets	2008		Notes
		£'000	£'000	
1,071	Intangible assets		1,179	20
	Tangible fixed assets			
	Operational assets			
176,012	Land and buildings	188,405		17
15,417	Vehicles, plant, furniture and equipment	16,804		17
58,405	Infrastructure assets	65,510		17
	Non-operational assets			
26,350	Assets under construction	33,202		
-	Surplus assets, held for disposal	1,445		
276,184			305,366	
2,172	Long term debtors		3,110	
279,427	Total Long Term Assets		309,655	
	Current assets			
716	Stores, materials and work-in-progress	780		
33,072	Sundry debtors	34,575		
(7,117)	less Bad debt provision	(7,063)		
25,955		27,512		
33,000	Short term deposits	44,000		
2,487	Cash and bank	2,782		
62,158		75,074		
	Current liabilities			
(211)	Provisions within 12 months	(2,997)		24
(36,795)	Sundry creditors	(45,101)		
(246)	Borrowings repayable within 12 months	(222)		22
(2,709)	Due to Trust and Common Good Funds	(2,851)		
(2,011)	Due to Pension Fund	(1,340)		
(41,972)		(52,511)		
20,186	Net Current Assets		22,563	
299,613	Total assets less current liabilities		332,218	
(171,276)	Long term borrowing		(173,480)	22
(2,247)	Provisions		(1,472)	24
(617)	Long term leasing liability		(333)	18
(42)	Deferred liabilities		(1,871)	
(35,337)	Government Grants & Contributions Deferred		(53,794)	
(337,416)	Pension Liability	(315,537)		
287,001	Pension Asset	273,944		
			(41,593)	29
39,679	Net Assets		59,675	

Balance Sheet

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

2007 £'000 Restated	Financed by	2008		Notes
		£'000	£'000	
(14,475)	General Fund Balance	(14,279)		23
(36)	Corporate Repairs & Renewals Fund	(41)		
(1,428)	Insurance Fund	(4,083)		
(4,730)	Capital Fund	(8,061)		
(20,669)			(26,464)	
50,415	Pensions Reserve		41,593	29
29,746			15,129	
-	Revaluation Reserve	(6,575)		
(76,115)	Capital Adjustment Account	(74,914)		
6,690	Financial Instruments Adjustment Account	6,685		
(69,425)			(74,804)	
(39,679)			(59,675)	

The Statement of Accounts presents fairly the financial position of the Council as at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

The unaudited accounts were issued on 26 June 2008 and the audited accounts were authorised for issue on 23 September 2008.

John I Campbell
 Director of Corporate Resources
 26 June 2008

Cash Flow Statement

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

2006/07 £'000 Restated		2007/08		Notes
		£'000	£'000	
	Revenue Activities			
	Cash Outflows			
138,254	Cash paid to and on behalf of employees	145,620		
134,205	Other operating cash payments	128,426		
17,726	Housing Benefit paid out	18,604		
22,194	Contribution to Non-Domestic Rates Pool	22,975		
312,379			315,625	
	Cash Inflows			
(58,511)	Council Tax receipts	(61,522)		
(13)	Community Charge receipts	(3)		
(40,532)	Distribution from Non-Domestic Rates Pool	(40,054)		
(22,168)	Receipts from ratepayers	(22,937)		
(125,493)	Revenue Support Grant	(134,654)		
(22,980)	DWP Benefits Subsidies	(23,490)		
(25,057)	Other government grants	(23,547)		36
(15,250)	Goods & services	(15,014)		
(19,753)	Other cash receipts	(18,601)		
(329,757)			(339,822)	
(17,378)	Net Cash Outflow / (Inflow) from Revenue Activities		(24,197)	33
	Servicing of Finance			
	Cash Outflows			
10,878	Interest paid	9,075		
66	Interest element of finance lease rental payments	49		
10,944		9,124		
	Cash Inflows			
(1,912)	Interest received	(2,525)		
-	Interest element of finance lease rental receipts	(171)		
9,032			6,428	
	Capital Activities			
	Cash Outflows			
32,414	Purchase of fixed assets	32,325		
-	Other capital cash payments	-		
	Cash Inflows			
(502)	Sale of fixed assets	(1,282)		
(14,847)	Capital grants received	(17,424)		
(4,991)	Other capital cash receipts	(5,419)		
12,074			8,200	
3,728	Net Cash (Inflow) / Outflow before Financing (carried forward to next page)		(9,569)	

Cash Flow Statement

2006/07 £'000 Restated		2007/08		Notes
		£'000	£'000	
3,728	Net Cash (Inflow) / Outflow before Financing		(9,569)	
	Management of Liquid Resources			
(270)	Net increase/(reduction) in short term deposits		11,000	
	Financing			
	Cash Outflows			
52,156	Repayments of amounts borrowed	47,991		
1,321	Premiums on premature repayment of loans	2,500		
298	Capital element of finance lease rental payments	292		
53,775	Cash Inflows	50,783		
(56,517)	New loans raised	(50,000)		
(1,162)	Loans discount received	(2,509)		
(58)	New finance leases raised	-		
(3,962)			(1,726)	
(504)	Net Cash Outflow / (Inflow) after Financing		(295)	34

Notes to the Core Financial Statements

Note 1 Restatement of 2006/07 Balance Sheet

The following table shows how the figures reported in the 2006/07 Balance Sheet have been restated to take account of the requirements of SORP 2007.

	Balance Sheet reported in 2006/07 £'000	Adjustments					Restated 2006/07 Balance Sheet £'000
		Adj 1 £'000	Adj 2 £'000	Adj 3 £'000	Adj 4 £'000	Adj 5 £'000	
Net Assets							
Total Fixed Assets	277,255	-	-	-	-	-	277,255
Long Term Debtors	2,176	-	-	-	(4)	-	2,172
Total Long Term Assets	279,431	-	-	-	(4)	-	279,427
Deferred premiums on early repayment of debt	5,618	-	(5,618)	-	-	-	-
Current Assets	62,158	-	-	-	-	-	62,158
Current Liabilities	(45,067)	-	-	-	-	3,095	(41,972)
Net Current Assets	17,091	-	-	-	-	3,095	20,186
Total Assets less Current Liabilities	302,140	-	(5,618)	-	(4)	3,095	299,613
Long Term Borrowing	(167,113)	-	-	(1,068)	-	(3,095)	(171,276)
Provisions	(2,247)	-	-	-	-	-	(2,247)
Long Term Leasing Liability	(617)	-	-	-	-	-	(617)
Deferred Liabilities	(42)	-	-	-	-	-	(42)
Government Grants & Contributions Deferred	(35,337)	-	-	-	-	-	(35,337)
Pension Liability	(337,416)	-	-	-	-	-	(337,416)
Pension Asset	287,001	-	-	-	-	-	287,001
Net Assets	46,369	-	(5,618)	(1,068)	(4)	-	39,679
Financed by	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Reserves	(20,669)	-	-	-	-	-	(20,669)
Pensions Reserve	50,415	-	-	-	-	-	50,415
	29,746	-	-	-	-	-	29,746
Capital Financing Reserve	(96,141)	96,141	-	-	-	-	-
Fixed Asset Restatement Reserve	20,026	(20,026)	-	-	-	-	-
Revaluation Reserve	-	-	-	-	-	-	-
Capital Adjustment Account	-	(76,115)	-	-	-	-	(76,115)
Financial Instruments Adjustment Account	-	-	5,618	1,068	4	-	6,690
	(76,115)	-	5,618	1,068	4	-	(69,425)
	(46,369)	-	5,618	1,068	4	-	(39,679)

- Adjustment 1 shows the creation of the Capital Adjustment Account by transferring the balances from the Fixed Asset Restatement Account and the Capital Financing Account.
- Adjustment 2 shows the transfer of the deferred premiums on early repayment of debt to the new Financial Instruments Adjustment Account
- Adjustment 3 shows the adjustment to the carrying value of loans subject to stepped interest payments
- Adjustment 4 shows the adjustment to the carrying value of 'soft loans'
- Adjustment 5 transfers accrued loans fund interest from current liabilities to long term borrowing.

Notes to the Core Financial Statements

Note 2 Service Analysis

The Income and Expenditure shows the net expenditure on the basis of the Council's departmental structure. Because this does not have the same service analysis as the Best Value Accounting Code of Practice (BVACOP), this note shows the service split on the BVACOP basis.

Net Expenditure 2006/07 £'000	Education	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
25,043	Budgets Devolved to Primary Schools	27,287	(290)	26,997
30,420	Budgets Devolved to Secondary Schools	32,528	(824)	31,704
7,675	Schools Strategic Management	6,841	(2,820)	4,021
4,551	Pre-Primary Education	5,049	(277)	4,772
730	Facilitating School Improvement	512	(91)	421
11,559	Supporting Special Education Needs	13,302	(1,425)	11,877
4,968	School & Pupil Support	9,058	(3,633)	5,425
780	Strategic Management of Non-School Services	5,356	(2,422)	2,934
2,508	Community Learning	2,309	(751)	1,558
88,234	Total	102,242	(12,533)	89,709

Net Expenditure 2006/07 £'000	General Fund Housing Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
552	Housing Strategy	666	(123)	543
50	Housing Advice	80	-	80
114	Private Sector Housing Renewal	1,607	(1,504)	103
113	Homelessness	1,792	(1,613)	179
327	Rent Allowances	18,639	(18,201)	438
133	Housing Benefit Administration	1,042	(1,006)	36
6	Other Council Property	1	-	1
180	Supporting people	5,865	(5,685)	180
1,475	Total	29,692	(28,132)	1,560

Net Expenditure 2006/07 £'000	Cultural & Related Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
1,225	Culture & Heritage	4,453	(813)	3,640
2,112	Library Service	2,157	(81)	2,076
6,800	Recreation & Sport	8,635	(948)	7,687
349	Tourism	254	(23)	231
10,486	Total	15,499	(1,865)	13,634

Notes to the Core Financial Statements

Net Expenditure 2006/07 £'000	Environmental Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
1,278	Cemetery, Cremation & Mortuary Services	1,772	(477)	1,295
20	Coast Protection	7	-	7
1,788	Environmental Health	2,025	(324)	1,701
303	Flood Defence & Land Drainage	309	(11)	298
702	Trading Standards	757	(70)	687
2,153	Other Cleaning	2,343	(70)	2,273
4,930	Waste Collection	7,951	(3,314)	4,637
2,616	Waste Disposal	4,613	(1,343)	3,270
13,790	Total	19,777	(5,609)	14,168

Net Expenditure 2006/07 £'000	Roads & Transport Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
11,353	Roads	12,860	(1,920)	10,940
1,744	Network & Traffic Management	2,008	(278)	1,730
120	Parking Services	317	(245)	72
2,161	Public Transport	4,183	(2,205)	1,978
15,378	Total	19,368	(4,648)	14,720

Net Expenditure 2006/07 £'000	Planning & Development Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
(218)	Building Control	1,199	(1,459)	(260)
313	Development Control	1,558	(1,068)	490
1,931	Planning Policy	1,295	(346)	949
992	Economic Development	3,693	(1,261)	2,432
3,018	Total	7,745	(4,134)	3,611

Notes to the Core Financial Statements

Net Expenditure 2006/07 £'000	Social Work	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
9,616	Children & Families	11,882	(1,126)	10,756
23,381	Older People	32,127	(8,517)	23,610
4,132	People with Physical or Sensory Difficulties	5,348	(1,385)	3,963
9,743	People with Learning Difficulties	13,288	(3,075)	10,213
1,836	People with Mental Health needs	2,623	(699)	1,924
177	People with Addiction / Substance Misuse	176	(11)	165
-	Services to Asylum Seekers	-	-	-
272	Criminal Justice Social Work Services	1,516	(1,286)	230
734	Service Strategy	889	(48)	841
49,891	Total	67,849	(16,147)	51,702

Net Expenditure 2006/07 £'000	Central Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
	Corporate & Democratic Core			
673	Democratic Representation & Management	1,115	-	1,115
3,365	Corporate Management	4,435	(302)	4,133
4,038		5,550	(302)	5,248
	Central Services to the Public			
1,897	Local Tax Collection	3,123	(901)	2,222
160	Registration of Births, Deaths & Marriages	328	(162)	166
202	Elections	420	(26)	394
129	Emergency Planning	136	(2)	134
577	General Grants, Bequests & Donations	572	(1)	571
149	District Courts	876	(719)	157
(140)	Licencing	75	(227)	(152)
2,974		5,530	(2,038)	3,492
(5,544)	Total Non-Distributed Costs	2,043	-	2,043

Net Expenditure 2006/07 £'000	Police and Fire and Rescue Services	Gross Expenditure 2007/08 £'000	Income 2007/08 £'000	Net Expenditure 2007/08 £'000
11,543	Police	11,684	-	11,684
7,231	Fire and Rescue	7,118	-	7,118
18,774	Total	18,802	-	18,802

202,514	Total Net Cost of Services	294,097	(75,408)	218,689
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Notes to the Core Financial Statements

Note 3 Acquired and Discontinued Operations

On 10 March 2008 the District Courts transferred to the Scottish Courts Service. The relevant amounts are included in the Income & Expenditure Account (£0.156m in 2007/08, £0.149m in 2006/07).

Note 4 Exceptional Items, Extraordinary Items and Prior Year Adjustments

At 31 March 2008 the Council had a provision for voluntary severance / early retirement of £2.143m. 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. 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. The schools are due to be opened between December 2008 and July 2009.

Note 6 Significant Trading Operation

SBcContracts 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,

2006/07 £'000		2007/08 £'000	3 Year Cumulative £'000
(24,120)	Turnover for the Year	(29,732)	(76,587)
(176)	(Surplus) / Deficit	(344)	(1,002)

SBcContracts 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 Service
- external contracts for other local authorities and the Scottish Government
- sub-contractor on a number of public contracts including three new high school construction projects at Eyemouth, Duns and Earlston
- a wide range of external contracts for the private sector

SBcContracts employs 214 manual workers and around 28 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The operation contributes significantly 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 2007/08 SBcContracts recorded a surplus of £0.344m against an approved budget of £0.339m.

In 2007/08 turnover increased by £5.61m (23.2%) to reach a record level £29.73m. Of this total £15.63m (53%) was generated by non Scottish Borders Council work. It also contributed strongly to the local economy by providing sub-contracted work to the value of £6.33 million. Within the overall £0.344m surplus generated in 2007/08, a surplus of £0.302m was generated from external work and a surplus of £0.042m generated on internal work.

Notes to the Core Financial Statements

Note 6 Significant Trading Operation (continued)

Significant trading operations are statutorily required to at least break-even over rolling three-year periods taking into account any statutory adjustments. For the 3 year period ending 31 March 2008 SBContracts recorded a surplus in each individual year and generated a cumulative surplus of £1.002m.

Note 7 Section 5 (I) Local Government Act 1986

2006/07 £'000	Expenditure on publicity was		2007/08 £'000
489	Staff Advertising		364
158	Other Advertising		163
137	General		117
784	Total		644

Note 8 Agency Work

2006/07 £'000			2007/08 £'000
275	Scottish Water	Collection of domestic water and waste water charges	290
341	Scottish Government	Reimbursable trunk road expenditure	74
47		Management fee	19
663	Total		383

Note 9 Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Other than agency work outlined at Note 8, no significant goods or services are provided to other public bodies.

Note 10 Members' Allowances

In 2007/08 members' allowances were paid under two sets of regulations and therefore the total paid in 2007/08 is not directly comparable to that paid in 2006/07. Until 3 May 2007 members' allowances included the Basic Allowance set by the then Scottish Executive, payable to all members and Special Responsibility Allowances determined by the Council and paid to specific post holders. Payments were also made towards members' travel, subsistence and administrative expenses. Income tax and national insurance deductions were made as appropriate.

New remuneration arrangements came into effect from 3 May 2007 whereby each member is paid a standard salary unless he or she is entitled to one of the higher amounts payable to the Leader of the Council, the Convener and Senior Councillors. In total £0.819m was paid in 2007/08 (£0.491m in 2006/07). Members' salaries are pensionable and members pay contributions at 6% in a similar manner to employees.

Notes to the Core Financial Statements

Note 11 Officers' Remuneration

2006/07 No.		2007/08 No.
	No. of officers whose remuneration in the year was	
18	£50,000 - £59,999	18
17	£60,000 - £69,999	24
1	£70,000 - £79,999	2
1	£80,000 - £89,999	1
4	£90,000 - £99,999	4
-	£100,000 - £109,999	-
1	£110,000 - £119,999	1
42		50

Note 12 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 36 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 10 shows the total allowances paid to members in 2007/08. 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 2007/08 the Pension Fund had an average balance of £4.391m of cash deposited with the Council, for which the Council paid £0.250m in interest. In addition the Council charged the Pension Fund £0.214m in respect of expenses incurred in administering the fund.

The Council provided material financial assistance to other bodies in 2007/08 as follows:-

- Borders Sport and Leisure Trust £1.534m
- Jedburgh Leisure Facilities Trust £0.123m
- VisitScotland £0.212m

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

- Police £11.684m
- Fire and Rescue £ 7.118m

Notes to the Core Financial Statements

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

Resource Transfer – a total of £4.814m was transferred from the NHS Borders and utilised as follows:-

- | | |
|-------------------------------------|---------|
| • Children's Services | £0.100m |
| • Older People | £1.660m |
| • Adults with Learning Difficulties | £1.999m |
| • People with Physical Difficulties | £0.861m |
| • Mental Health | £0.194m |

Borders Ability Equipment Store

- The store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.608m with a contribution from the NHS Borders of £0.249m.

Galashiels Resource Centre

- This is a Day Centre run jointly with the NHS Borders for adults with mental health needs. Gross expenditure totalled £0.177m.

During 2007/08 the Council had a number of material transactions with Transport Scotland in relation to the Waverley Railway project. The Council has been involved in procuring land and in managing a range of professional consultants. In respect of 2007/08 grant funding of £13.098m was claimed from Transport Scotland, being £9.553m in respect of land and £3.545m in respect of other costs.

Note 13 Audit Remuneration

In 2007/08 the agreed audit fee for the year was £308,100, including the notified fixed element charge, in respect of services provided by Audit Scotland of £101,800 (2006/07 £307,700 and £98,200 respectively).

Note 14 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 14.

Notes to the Core Financial Statements

Note 15 Capital Expenditure, Fixed Asset Disposals and Sources of Capital Financing

	Capital Expenditure in the year £'000	Disposals in the year £'000
Land and Buildings	8,545	(1,173)
Vehicles, Plant and Equipment	5,716	(109)
Infrastructure	8,069	-
Assets under construction	17,839	-
Total Tangible Fixed Assets	40,169	(1,282)
Purchased Software	472	-
Total	40,641	(1,282)

	Sources of Finance £'000
Loans Fund Advances	(15,733)
Capital financed from Current Revenue (CFCR)	(1,649)
Capital financed from Capital Fund	(2,633)
Finance Leases	-
Capital Grants	(20,427)
Contributions from Other Parties	(199)
Total	(40,641)

Note 16 Capital Commitments

Capital expenditure to 31 March has resulted in commitments estimated to the value of £10.036m being entered into in respect of future years (£4.343m in 2006/07).

	Capital Commitments £'000
Corporate Projects	481
Corporate Resources	228
Education and Lifelong Learning	3,996
Planning and Economic Development	6
Social Work	560
Technical Services	4,765
Total	10,036

Notes to the Core Financial Statements

Note 17 Tangible Fixed Assets

	Operational Assets			Non-Operational Assets		Total Tangible Assets £'000
	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-structure £'000	Assets under Construction £'000	Assets awaiting Disposal £'000	
Gross Book value (GBV) at 31st March 2007	191,234	31,211	92,936	26,350	-	341,731
Expenditure in the year	8,545	5,716	8,069	17,839	-	40,169
Transfers between categories	6,728	19	3,035	(10,987)	1,205	-
Revaluations	5,173	-	-	-	327	5,500
Impairments	(3,369)	-	-	-	-	(3,369)
Disposals	(1,183)	(807)	-	-	-	(1,990)
Other Adjustments	-	-	-	-	-	-
Gross Book value (GBV) at 31st March 2008	207,128	36,139	104,040	33,202	1,532	382,041
Cumulative Depreciation at 31st March 2007	(15,222)	(15,794)	(34,531)	-	-	(65,547)
Depreciation for the year	(5,551)	(4,238)	(3,999)	-	-	(13,788)
Transfers between categories	161	(1)	-	-	(160)	-
Revaluations	1,656	-	-	-	73	1,729
Impairments	223	-	-	-	-	223
Disposals	10	698	-	-	-	708
Other Adjustments	-	-	-	-	-	-
Cumulative depreciation at 31st March 2008	(18,723)	(19,335)	(38,530)	-	(87)	(76,675)
Net book value at 31st March 2008	188,405	16,804	65,510	33,202	1,445	305,366
Net book value at 31st March 2007	176,012	15,417	58,405	26,350	-	276,184

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 17 Tangible Fixed Assets (continued)

Information on Assets Held

The main assets held by the Council as at 31 March 2008 are as follows:-

Land and Buildings		Vehicles, Plant, Furniture and Fittings	
Council Offices	58	Vehicles	530
Residential / Day Centres	25	Plant and other equipment	1,606
Depots, stores and workshops	42		
Halls	33	Infrastructure	
Landfill sites	14	Roads (kilometre length)	2,947
Libraries	11	Bridges	1,237
Museums	8	Car parks	88
Pavilions	4		
Public conveniences	59	Industrial Properties	
Nursery units	40	Industrial units	259
Primary schools	68		
Secondary schools	9	Community Assets	
Sports centre / Swimming pools	17	Cemeteries	154
Community Centres and Youth Clubs	32	Parks and play areas	125
Shops	32	War memorials	51
Agricultural / Development land	12	Clocks	10
Outdoor study centres	5	Monuments and statues	19
Golf courses / Clubhouses	2		
Other land, sites and buildings	147		

Notes to the Core Financial Statements

Note 17 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 2007/08 the fixed assets of the Corporate Resources and Social Work departments were re-valued.
- 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

Fixed assets awaiting disposal are re-valued at the point of being declared surplus to the estimated sale proceeds.

Revaluation Cycle

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

- 1st April 2007 – Social Work and Corporate Resources properties
- 1st April 2006 – Technical Services properties (other than those included within Protective Services)
- 1st April 2005 – Former housing properties and Protective Services
- 1st April 2004 – Industrial units and other Planning & Economic Development properties
Common Good & Trust properties
- 1st April 2003 – Education properties including all schools

The properties held by Education and Lifelong Learning will be revalued as at 1st April 2008, with the resulting adjustments incorporated into the 2008-09 accounts of the Council.

Notes to the Core Financial Statements

Note 18 Leasing Disclosures (Lessee)

In its capacity as lessee, the Council made the following payments to lessors in 2007/08:-

2006/07 £'000		2007/08 £'000
-	Operating Leases	-
-	Land and buildings	-
1,540	Plant and equipment	1,185
1,540	Sub total	1,185
-	Finance Leases	-
-	Land and buildings	-
341	Plant and equipment	341
341	Sub total	341
1,881	Total	1,526

The following assets were held under finance leases:-

2006/07 £'000		2007/08 £'000
-	Gross Asset Value	-
-	Land and buildings	-
1,485	Plant and equipment	1,485
1,485		1,485
-	Accumulated Depreciation	-
-	Land and buildings	-
(390)	Plant and equipment	(687)
(390)		(687)
-	Net Asset Value	-
-	Land and buildings	-
1,095	Plant and equipment	798
1,095		798

Depreciation of £0.297m was charged to 2007/08. Finance lease obligations, net of finance charges, are as follows:-

	2008/09 £'000	2009/10 to 2012/13 £'000	2013/14 onwards £'000	Total £'000
Plant and equipment	302	333	-	635

Aggregate finance charges in respect of finance leases totalled £0.049m (£0.063m in 2006/07).

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

In respect of operating leases the Council is committed to make payments of £0.714m in 2008/09, relating to obligations expiring as follows:-

	2008/09 £'000	2009/10 to 2012/13 £'000	2013/14 onwards £'000	Total £'000
Plant and equipment	197	463	54	714

Notes to the Core Financial Statements

Note 19 Leasing Disclosures (Lessor)

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

2006/07 £'000		2007/08 £'000
(275)	Finance leases	(275)
(1,227)	Operating leases	(1,222)
(1,502)	Total	(1,497)

The Council has a net investment of £2.569m in finance leases at 31 March 2008.

The gross amount of assets held for use in operating leases was £10.021m with related accumulated depreciation charges of £0.729m.

No assets were acquired in 2007/08 for the purpose of letting under finance leases.

Notes to the Core Financial Statements

Note 20 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 31st March 2007	1,379
Expenditure in the year	472
Disposals	-
Gross book value (GBV) at 31st March 2008	1,851
Cumulative amortisation at 31st March 2007	(308)
Amortisation for the year	(364)
Disposals	-
Cumulative amortisation at 31st March 2008	(672)
Net book value at 31st March 2008	1,179
Net book value at 31st March 2007	1,071

There were no disposals, revaluations, transfers or impairments in 2007/08.

Note 21 Net Assets

The total net assets on the Balance Sheet relate to the General Fund.

Note 22 Outstanding Loans

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

31 March 2007 Restated			31 March 2008	
£'000	%		£'000	%
(44,624)	26	Bonds and Mortgages	(44,786)	26
(125,655)	73	Public Works Loan Board	(127,914)	74
(995)	1	European Investment Bank	(780)	-
(171,274)	100	External Borrowing	(173,480)	100
(171,274)	100	Long Term Borrowing	(173,480)	100
(248)	-	Short Term Borrowing repayable within 12 months	(222)	-
(171,522)	100	Total Borrowing	(173,702)	100

Notes to the Core Financial Statements

Note 22 Outstanding Loans (continued)

Analysis of Loans by Maturity.

2007 Restated £'000		2008 £'000
(248)	Less than 1 year	(222)
(222)	Between 1 and 2 years	(170)
(817)	Between 2 and 7 years	(654)
(9,629)	Between 7 and 15 years	(5,585)
(160,606)	More than 15 years	(167,071)
(171,522)	Total	(173,702)

Note 23 Insurance Fund

The first £67,470 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 £477,500 for combined liability claims in any one insurance year.

- At 31 March 2008 the balance on the fund was £4.083m, including £2.490m held pending the reinstatement of fire damaged property
- The value of known claims at that date was estimated at £0.708m

2006/07			2007/08	
£'000	£'000		£'000	£'000
	(1,533)	Balance as at 1 April 2007		(1,428)
(1,218)		Income from premiums charged to services	(1,442)	
(74)		Interest on balances	(157)	
-		Other income	(2,490)	
	(1,292)			(4,089)
958		Premium costs	1,028	
348		Claims costs	304	
91		Administration charges	102	
	1,397			1,434
	(1,428)	Balance as at 31st March 2008		(4,083)

Notes to the Core Financial Statements

Note 24 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
- 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	Other £'000	Total £'000
Balance at 1 April 2007	(211)	(2,195)	-	(52)	(2,458)
Additional charges to provisions	(169)	-	(2,143)	-	(2,312)
Payments made or released	211	38		52	301
Balance at 31 March 2008	(169)	(2,157)	(2,143)	-	(4,469)
Within 12 Months	(169)	(960)	(1,868)	-	(2,997)
Over 12 months	-	(1,197)	(275)	-	(1,472)
Total	(169)	(2,157)	(2,143)	-	(4,469)

Note 25 Details of Movements on Reserves

	Balance as at 31 March 2007 £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2008 £'000
General Fund	(14,475)	(441)	637	(14,279)
Corporate Repairs and Renewals Fund	(36)	(5)	-	(41)
Insurance Fund	(1,428)	(208)	(2,447)	(4,083)
Capital Fund	(4,730)	(463)	(2,868)	(8,061)
Pensions Reserve	50,415	(2,032)	(6,790)	41,593
Revaluation Reserve	-	654	(7,229)	(6,575)
Capital Adjustment Account	(76,115)	2,500	(1,299)	(74,914)
Financial Instruments Adjustment Account	6,690	(5)	-	6,685
	(39,679)	-	(19,996)	(59,675)

Note 26 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 2008 the balance outstanding on that loan was £955,464 (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.

Notes to the Core Financial Statements

Note 26 Contingent Liabilities (continued)

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.

Whilst provision has been made in these accounts for costs arising from known equal pay claims, it remains possible that further claims may be lodged by other employees in the future. Given the considerable uncertainties around whether such claims will be made, and the likelihood of their success, it is not practicable to estimate their financial effect.

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 parties are still in the process of adjusting the Record. 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 27 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 2008 was £1.606m (£2.093m at 31 March 2007).

Note 28 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

2007 £'000	Analysis as at 31 March	2008 £'000
	Earmarked Reserves	
(2,093)	Devolved School Management	(1,606)
(1,936)	Support for the following year's budget	-
	Specific Departmental Reserves	
(134)	Chief Executive	(345)
(426)	Corporate Resources	(593)
(553)	Education and Lifelong Learning	(592)
(531)	Planning and Economic Development	(473)
(1,847)	Social Work	(2,262)
(535)	Technical Services	(125)
(485)	Other	(2,009)
(8,540)		(8,005)
(5,935)	Non Earmarked Reserve	(6,274)
(14,475)	Total General Fund Reserve	(14,279)

The main part of the increase in Social Work is an increase in funds held for investment in new social housing funded from council tax second homes discount of £0.482m. The principal part of the increase within 'Other' is for Single Status and the Business Transformation programme.

Notes to the Core Financial Statements

Note 29 Defined Benefit Pension Schemes

In accordance with Financial Reporting Standard 17 (FRS 17) – Retirement Benefits, the Council is required to disclose certain information relating to pensions income and expenditure and assets and liabilities. The 2007/08 accounts contain entries in the core financial statements and these notes are intended to complement those entries.

The Council participates in two formal pension schemes. The Teachers' Pension Scheme is a defined benefit scheme administered by the Scottish Government. As the liability for the payment of pensions lies with the Scottish Government, the disclosures required in the accounts are not as extensive as for the Council's scheme. In addition the Council has liability for discretionary pension payments outwith the main schemes.

The Local Government Pension Scheme is a funded defined benefit scheme. 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 sums charged or credited to the Income and Expenditure Accounts were as follows:-

2006/07 £'000	Income and Expenditure Account	2007/08 £'000
	Net Cost of Services	
11,643	Current Service Cost	10,619
(5,360)	Past Service Cost	1
19	Settlements and Curtailments	(101)
6,302		10,519
16,542	Interest Cost	18,359
(17,739)	Expected Return on Assets	(19,702)
5,105		9,176

2006/07 £'000	Reconciliation of the Statement of Movement in the General Fund Balance	2007/08 £'000
4,341	Movement on Pensions Reserve	948
9,446	Employer's contributions paid	10,124

2004/05 £'000	2005/06 £'000	2006/07 £'000		2007/08 £'000
7,486	45,424	(3,765)	Difference between the expected and the actual return on assets	(38,649)
206,860	269,958	287,001	Value of assets at Balance Sheet date	273,944
4.00	16.82	(1.31)	Percentage of assets	(14.1)
-	20,737	-	Experience gains and losses arising on the scheme liabilities	-
298,865	335,531	337,415	Value of liabilities at Balance Sheet date	315,537
-	6.18	-	Percentage of liabilities	-

The most recent full actuarial valuation was as at 31 March 2005, a valuation as at 31 March 2008 is currently underway and the next one is due as at 31 March 2011.

Notes to the Core Financial Statements

Note 29 Defined Benefit Pension Schemes (continued)

The main assumptions used by the Council's actuary, Barnett Waddingham in their calculations are as follows:-

31 March 2007			31 March 2008	
%p.a.	%p.a. real		%p.a.	%p.a. real
3.3	-	Price increases	3.7	-
4.8	1.5	Salary increases	5.2	1.5
3.3	-	Pension increases	3.7	-
5.4	2.1	Discount rate	6.6	2.9

The following table summarises the assets of the whole pension fund at fair value and analyses this by the major asset classes. It also shows the percentage long-term return and the value of the expected annual return:-

As at 31 March 2007				As at 31 March 2008		
Long-Term Return	Fund Value	Annual Expected Return		Long-Term Return	Fund Value	Annual Expected Return
%	£'000	£'000		%	£'000	£'000
7.2	217,280	15,644	Equities	7.3	202,036	14,749
4.4	18,174	800	Gilts	4.5	16,499	742
5.4	22,807	1,232	Other Bonds	6.6	24,313	1,605
6.7	23,100	1,548	Property	6.8	19,339	1,315
5.0	5,640	282	Cash	5.0	11,757	588
6.8	287,001	19,506	Total	6.9	273,944	18,999

As at 31 March 2008 there were no material prepaid or accrued pension contributions.

The net pension liability can be summarised as follows:-

31 March 2007 £'000		31 March 2008 £'000
287,001	Estimated employer assets (A)	273,944
(326,183)	Present value of scheme liabilities	(305,495)
(11,233)	Present value of unfunded liabilities	(10,042)
(337,416)	Total value of liabilities (B)	(315,537)
(50,415)	Net pension liability (A) - (B)	(41,593)

Notes to the Core Financial Statements

Note 29 Defined Benefit Pension Schemes (continued)

The following table sets out the main stages in the movement (reduction) in the deficit:-

	£'000	£'000
Deficit brought forward at 1 April 2007		50,415
Current Service Cost	10,619	
Past Service Cost	1	
Settlements and Curtailments	(101)	
Interest on Pension Scheme Liabilities	18,359	
		28,878
Employer's Contributions	(10,124)	
Unfunded Pension Payments	(1,084)	
Expected Return on Assets	(19,702)	
Actuarial Gain	(6,790)	
		(37,700)
Deficit carried forward at 31 March 2008		41,593

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits based on a 'snapshot' calculation as at 31 March 2008. The calculations for FRS 17 purposes are not relevant for calculations undertaken for the funding purposes of the pension scheme. Any deficit on the pension scheme will be made good by increasing contributions as assessed by the scheme's actuary. The most recent actuarial report records a funding position of 93% as at 31 March 2005. The actuarial valuation as at 31 March 2008 has been carried out and the actuary's report is awaited.

Note 30 Teachers' Pension Scheme

In 2007/08 the Council paid £5.896m (13.5% of pensionable pay) to the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government, in respect of Teachers' pension costs. In addition, the Council is responsible for the additional costs of pension payments relating to early payment of pensions and added years it has awarded, together with the related increases. In 2007/08 these amounted to £0.398m representing 0.89% of pensionable pay.

Note 31 Authorisation for the Issue of the Accounts

The Statement of Accounts was authorised for issue on 26 June 2008 by the Director of Corporate Resources.

Note 32 Material Post Balance Sheet Events

Since the Balance Sheet date there has been considerable uncertainty and volatility in world financial markets. For example the FTSE 100 index at 17 September 2008 was around 11% below the market close at 31 March 2008. However in that period the index also reached a point nearly 6% above the 31 March 2008 level.

The asset investment strategy requires a wide range of investments includes equities, bonds, property and cash invested in both UK markets and overseas. The current turbulence in world financial markets is considered to be a short to medium-term issue in investment terms and no adjustment to the 31 March 2008 position is made.

Notes to the Core Financial Statements

Note 33 Reconciliation between the Income and Expenditure Account and the revenue activities in the Cash Flow Statement

2006/07 £'000	Reconciliation to Income & Expenditure Account	2007/08	
£'000		£'000	£'000
(4,401)	(Surplus) / Deficit on Income and Expenditure Account		637
	Less - Non-Cash Transactions		
(13,089)	Depreciation and Impairment	(17,298)	
839	Amortisation of Grants	1,912	
5,447	FRS17 Pension Adjustments	2,032	
(910)	Other Non-Cash items	(134)	
(7,713)			(13,488)
	Items on an Accruals Basis		
(68)	Movement in Stocks & Stores	64	
562	Movement in Revenue Debtors	(1,731)	
788	Movement in Revenue Creditors	(1,240)	
2,485	Movement in Other Provisions	(2,012)	
3,767			(4,919)
	Items treated as Servicing of Finance		
(10,878)	Interest paid	(9,075)	
(66)	Interest element of finance lease rental payments	(49)	
1,912	Interest received	2,525	
	Interest element of finance lease rental receipts	172	
(9,032)			(6,427)
(17,379)	Net Cash Outflow / (Inflow) from Revenue Activities		(24,197)

Note 34 Reconciliation of the movement in Cash to the movement in Net Debt

2006/07 Restated £'000		2007/08 £'000
(131,775)	Net Debt as at 1st April	(136,970)
504	Increase / (decrease) in cash	295
(5,429)	(Increase) / decrease in long term debt	(1,725)
(270)	Increase / (decrease) in short term deposits	11,000
(5,195)	Movement in net debt during the year	9,570
-	Non-cash items	(155)
(136,970)	Net Debt as at 31st March	(127,555)

Notes to the Core Financial Statements

Note 35 Financing and Management of Liquid Resources

Balance at 31 March 2007 Restated £'000		Cash Flow £'000	Non-Cash Items £'000	Balance at 31 March 2008 £'000
2,487	Cash in hand and at bank	295	-	2,782
	<u>Borrowings</u>			
(246)	Debt repayable within one year	24	-	(222)
(171,284)	Debt repayable after more than one year	(2,041)	(155)	(173,480)
(927)	Balances outstanding on finance leases	292	-	(635)
(172,457)	Total Borrowings	(1,725)	(155)	(174,337)
33,000	Short term deposits	11,000	-	44,000
(136,970)	Net Debt	9,570	(155)	(127,555)

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

Notes to the Core Financial Statements

Note 36 Analysis of Government Grants in the Cash Flow Statement

2006/07 £'000		2007/08 £'000
-	Chief Executive Community Safety	(146)
(1,063)	Corporate Resources Benefits Administration	(1,009)
(132)	E Government	-
	Planning and Economic Development	
(182)	Countryside	(154)
(52)	Other	(64)
	Social Work	
(5,750)	Supporting People	(5,751)
(120)	People with Physical Difficulties	(130)
(58)	Older People	(107)
(126)	Training	(116)
(311)	Mental Illness	(311)
(973)	Criminal Justice	(1,002)
(1,162)	Children and Families	(917)
(619)	Homelessness	(625)
-	Registration of Private Landlords	(85)
(1,110)	Private Sector Housing Renewal	(1,293)
(129)	Other Social Work	(4)
	Education and Lifelong Learning	
(7,593)	Training	(6,032)
(136)	Nursery	(185)
(644)	Primary	(547)
(968)	Secondary	(636)
(60)	Administration	(33)
(90)	Libraries	(31)
-	Other Education	(862)
	Technical Services	
(645)	Rural Transport	(566)
(2,825)	Strategic Waste Fund	(2,633)
(42)	Other	(195)
	Other	
(267)	Regeneration Outcome Agreement	(113)
(25,057)		(23,547)

Notes to the Core Financial Statements

Note 37 Financial Instruments 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 2007 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2008 £'000
Financial liabilities at cost	167,112	169,000	246	222
Financial liabilities at amortised cost in the Balance Sheet	171,276	173,480	246	222
Financial liabilities at fair value through the I&E account	-	-	-	-
Total Borrowings	171,276	173,480	246	222
Loans and receivables	2,172	3,109	58,955	71,513
Available for sale financial assets	-	-	-	-
Financial assets at fair value through the I&E account	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Total investments	2,172	3,109	58,955	71,513

In terms of significant movements the total of short-term deposits increased from £33m at 31 March 2007 to £44m at 31 March 2008.

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

	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	Fair value through the I and E A/C £'000	
Interest expense	8,981	-	-	-	8,981
Losses on derecognition	-	-	-	-	-
Impairment Losses	-	-	-	-	-
Interest payable and similar charges	8,981	-	-	-	8,981
Interest Income	-	(1,735)	-	-	(1,735)
Gains on derecognition	-	-	-	-	-
Interest and investment income	-	(1,735)	-	-	(1,735)
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	8,981	(1,735)	-	-	7,246

Notes to the Core Financial Statements

Note 37 Financial Instruments Disclosures (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 2007		31 March 2008	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(125,657)	(152,368)	(127,914)	(167,481)
Other debt	(45,619)	(40,035)	(45,566)	(42,858)
Total debt	(171,276)	(192,403)	(173,480)	(210,339)
Creditors	(36,795)	(36,795)	(45,101)	(45,101)
Total financial liabilities	(208,071)	(229,198)	(218,581)	(255,440)

	31 March 2007		31 March 2008	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Money market loans < 1 year	33,000	33,000	44,000	44,000
Money market loans > 1 year	-	-	-	-
Bonds	-	-	-	-
Total investments	33,000	33,000	44,000	44,000
Debtors	25,955	25,955	27,512	27,512
Total loans and receivables	58,955	58,955	71,512	71,512

All the financial assets were of less than one year duration and hence the fair value equates to the amortised cost in the Balance Sheet.

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

Notes to the Core Financial Statements

Note 37 Financial Instruments Disclosures (continued)

Our 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 set out through a legal framework in the Local Government in Scotland Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:-

- by formally adopting the requirements of the Code of Practice
- by approving annually in advance prudential indicators for the following three years limiting
- the Council's overall borrowing
- its maximum and minimum exposures to fixed and variable rates
- its maximum and minimum exposures to the maturity structure of its debt
- its maximum annual exposures to investments maturing beyond a year
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. 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 annually to Members. These policies are implemented by a treasury team within the Financial Administration Division. The Council maintains written principles 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. These practices are a requirement of the Code of Practice and are reviewed regularly.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the Fitch ratings agency and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions.

	Amount as at 31 March 2008 a £'000	Historical experience of default b	Adjustments for market conditions at 31 March 2008 c	Estimated maximum exposure to default (a x c) £'000
Deposits with banks and financial institutions				
AAA' rated counterparties	-	-	-	-
AA' rated counterparties	39,500	0.007%	0.007%	3
A' rated counterparties	4,500	0.108%	0.108%	5
Other counterparties	-	-	-	-
Bonds - 'AAA' rates	-	-	-	-
Total	44,000	-	-	8

Notes to the Core Financial Statements

Note 37 Financial Instruments Disclosures (continued)

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

The Balance Sheet contains a total figure for debtors, which comprises a number of items. In terms of the potential for default the Council makes a provision for bad debts against the different elements which is reviewed on a regular basis. The table below summarises the gross debt, the current amount of the provision and the net amount.

	Gross Debtors £'000	Bad Debt Provision £'000	Net £'000
Community Charge	149	(149)	-
Council Tax	7,739	(4,412)	3,327
Non-Domestic Rates	2,677	(1,367)	1,310
Sundry Debtors	6,898	(1,135)	5,763
Payments in Advance	306	-	306
Departmental Accruals	13,289	-	13,289
Other Debtors	3,517	-	3,517
Total	34,575	(7,063)	27,512

The table below shows the aged analysis of the debt.

Period	£'000
Up to 1 month	3,348
1 to 2 months	230
2 to 3 months	184
3 to 4 months	151
4 to 5 months	87
6 months +	2,898
	6,898

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

Liquidity risk

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 arising from financial instruments.

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 through cash flow management procedures required by the Code of Practice.

Refinancing and Maturity Risk

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

Notes to the Core Financial Statements

Note 37 Financial Instruments Disclosures (continued)

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

This includes:-

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

The maturity analysis of financial liabilities is as follows:-

	£'000
Less than one year	222
Between one and two years	170
Between two and seven years	654
Between seven and fifteen years	5,585
More than fifteen years	167,071
Total	173,702

The maturity analysis of financial assets is as follows:-

	£'000
Less than one year	44,000
Between one and two years	-
Between two and three years	-
More than three years	-
Total	44,000

All trade and other payables are due to be paid in less than one year and debtors of £27.512m are not shown in the table above.

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 liability will fall
- 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

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 the 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, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

Notes to the Core Financial Statements

Note 37 Financial Instruments Disclosures (continued)

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the 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 and minimum limits for fixed and variable interest rate exposure. The treasury team along with advisers will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

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

	£'000
Increase in interest payable on variable rate borrowings	27
Increase in interest receivable on variable rate investments	-
Impact on Income and Expenditure Account	27
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	-

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 invest in equity shares and has no shareholdings in any joint ventures.

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

Supplementary Financial Statements Council Tax Income Account

2006/07			2007/08	
£'000	£'000		£'000	£'000
	(51,932)	Gross Charges Levied		(53,805)
5,394		Less :- Benefits	5,350	
(5,463)		Government Subsidy	(5,431)	
(69)			(81)	
4,555		Discounts	4,664	
613		Provision for bad debts	73	
291		Lump Sum Payment Discounts	299	
(10)		Miscellaneous	(100)	
	5,380			4,855
	(46,552)			(48,950)
	(13)	Community Charge Collected		(4)
	(46,565)	Total Income reflected in the Income and Expenditure Account		(48,954)

Notes to the Council Tax Income Account

1 Calculation of Council Tax base at 1 April 2007

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2007/08 £
A	16,539	6/9	11,026	722.67
B	12,506	7/9	9,727	843.11
C	6,272	8/9	5,575	963.56
D	5,343	9/9	5,343	1,084.00
E	5,608	11/9	6,854	1,324.89
F	3,926	13/9	5,671	1,565.78
G	3,334	15/9	5,557	1,806.67
H	384	18/9	768	2,168.00
Total	53,912		50,521	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(6,046)	
Estimated net income from a Council Tax of £1 for 2007/08			£44,475	

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 2007/08 the Band D charges were £171.72 for water and £194.13 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 2007/08 is £13.362m and, after making a bad debt provision, the net amount projected to be paid is £13.174m.

Non-Domestic Rate Income Account

2006/07			2007/08	
£'000	£'000		£'000	£'000
	(25,085)	Gross Charges Levied		(25,978)
2,770		Less :- Reliefs and remissions	2,877	
178		Provision for bad debts	185	
1		Interest paid on overpaid rates	2	
	2,949			3,064
	(22,136)	Net General Fund expenditure on discretionary reliefs		(22,914)
	(58)			(61)
	(22,194)	Contribution to National Pool	22,975	(22,975)
22,194		Distribution received from National Pool as part of Aggregate External Finance	(40,054)	
(40,532)				(17,079)
	(18,338)			
	(40,532)	Total Income reflected in the Income and Expenditure Account		(40,054)

Notes to the Non Domestic Rate Income Account

1. Rateable Subjects at 1 April 2007

Classification	Number	Rateable Value £'000
Shops	1,265	15,043
Public Houses	101	1,181
Offices including Banks	733	5,387
Hotels, Boarding Houses, etc	131	2,762
Industrial and Freight transport	1,670	14,432
Leisure, Entertainment, Caravan sites, etc	779	3,702
Garages and Petrol Stations	244	1,505
Cultural and Sporting	114	485
Education and Training	104	4,648
Public Service	427	3,135
Communications	6	13
Quarries, Mines, etc	15	280
Petrochemical	6	1,283
Religious	297	579
Health and Medical	101	3,019
Care Facilities	109	1,369
Other (including advertising)	574	938
Undertakings	34	4,269
Total	6,710	64,030

2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2007/08 was:

- 44.1p for properties with a rateable value up to £29,000
- 44.4p for properties with a rateable value above £29,000

Pension Fund

2006/07 £'000	Fund Account	2007/08 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
(14,368)	Contributions Receivable	(15,125)	3,11
(2,356)	Transfers In	(3,107)	4
-	Other Income	(3)	
(16,724)		(18,235)	
9,606	Benefits Payable	9,870	5, 11
1,476	Payments to and on account of leavers	1,181	6
186	Administrative expenses borne by the Scheme	185	
(5,456)	Net (Additions) / Withdrawals from dealings with members	(6,999)	
(5,560)	Investment Income	(6,330)	7
(7,928)	Change in the market value of investments	20,536	8
338	Taxation	383	
952	Investment Management Expenses	1,041	
(12,198)	Return on Investments	15,630	
(17,654)	Net (increase) / decrease in the fund during the year	8,631	
284,406	Opening Net Assets of the Scheme	302,060	
302,060	Closing Net Assets of the Scheme	293,429	

2006/07 £'000	Net Assets Statement	2007/08 £'000	Notes
	Investment Assets		
19,658	Fixed Interest - Public Sector	17,428	} 9,10
987	Fixed Interest - Other	4,484	
170,154	Equities	159,819	
-	UK Index Linked	87	
	Managed Funds		
24,107	Property	20,841	
43,089	Life (Equity)	40,782	
22,960	Life (Bonds)	22,203	
14,471	Open Ended Investment Contracts	18,936	
1,111	Money Market Instruments	355	
296,537		284,935	
5,523	Net Current Assets and Liabilities	8,494	
302,060	Net Assets	293,429	

John I Campbell
 Director of Corporate Resources
 26 June 2008

Notes to the Pension Fund

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 11. They satisfy the requirements of Section 2, 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

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 last traded 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 FRAG (Financial Reporting and Auditing Guidelines) 21 reports.

Note 2 Actuarial Valuation

An actuarial valuation of the fund as at 31 March 2008 is currently being carried out. The actuary's report is awaited and will recommend the various employers' contribution rates effective from 1 April 2009 for the next three years 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 2007/08 the common rate was 300%. As at the 31 March 2005 valuation the pension fund had a funding level of 93% with a deficit of £15.925m and the actuary recommended a common contribution rate of 300% for the period from 1 April 2006 to 31 March 2009, to which adjustments are made to reflect each body's circumstances. The asset value reported by the actuary at the valuation date was £222.9m. The next actuarial valuation, following the valuation as at 31 March 2008 which has yet to report, will be as at 31 March 2011. An interim valuation was carried out as at 31 December 2006 which indicated a funding level of 102%. This valuation has no status other than as a guide for investment strategy purposes.

Notes to the Pension Fund

Note 3 Contributions Receivable

2006/07				2007/08		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
10,420	3,693	14,113	Normal	11,185	3,826	15,011
192	-	192	Special	35	-	35
6	-	6	Additional	-	-	-
-	57	57	Additional Voluntary	-	79	79
10,618	3,750	14,368	Total	11,220	3,905	15,125

Note 4 Transfers In

There were no group transfers in to the scheme during 2007/08 and the total of £3.107m represents the total of transfer values in respect of individual members joining the scheme.

Note 5 Benefits Payable

2006/07 £'000		2007/08 £'000
7,931	Pension Payments	8,369
1,675	Lump Sum Payments	1,501
9,606	Total	9,870

Note 6 Payments to and on account of Leavers

2006/07 £'000		2007/08 £'000
102	Contributions Returned	98
1,374	Individual Transfer Values	1,083
1,476	Total	1,181

Note 7 Investment Income

2006/07 £'000		2007/08 £'000
(726)	Fixed Interest Securities	(680)
(4,270)	Equity Dividends	(4,708)
-	Index Linked Securities	(1)
(393)	Pooled Investment Vehicles	(468)
(171)	Cash Deposits	(473)
(5,560)	Total	(6,330)

Note 8 Change in the market value of investments

2006/07 £'000		2007/08 £'000
(7,977)	Realised	5,135
49	Unrealised	(25,671)
(7,928)	Total	(20,536)

Notes to the Pension Fund

Note 9 Market Value of the Scheme's Investment Assets

As at 31 March 2008 the market value of the assets under management was:-

31 March 2007		Manager	31 March 2008	
£'000	%		£'000	%
85	0.02	Internal	81	0.03
185,094	62.42	UBS	175,053	61.44
111,358	37.56	Baillie Gifford	109,801	38.53
296,537	100		284,935	100

Note 10 Analysis of Investment Assets

2007				2008		
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
19,658	-	19,658	Fixed Interest - Public Sector	17,428	432	17,860
491	496	987	Fixed Interest - Other	2,474	1,665	4,139
71,117	99,037	170,154	Equities	59,286	100,533	159,819
			Managed Funds			
24,107	-	24,107	Property	20,841	-	20,841
43,089	-	43,089	Life (Equity)	40,782	-	40,782
22,960	-	22,960	Life (Bonds)	22,203	-	22,203
			Open Ended Investment			
14,471	-	14,471	Contracts	18,936	-	18,936
1,111	-	1,111	Money Market Instruments	355	-	355
197,004	99,533	296,537		182,305	102,630	284,935

As at 31 March 2008 assets valued at £276,521,566 were quoted on the Stock Exchange and assets valued at £8,413,894 were unquoted.

During 2007/08 sales of investments totalled £74,911,711 and purchases totalled £88,941,398.

Note 11 Analysis of Contributions and Benefits

	Benefits Payable £'000	Contributions Receivable £'000
Scottish Borders Council	9,477	13,727
Scheduled Bodies	77	374
Admitted Bodies	316	1,024
Total	9,870	15,125

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 its stakeholders. On that same date the Council approved its first Funding Strategy Statement 2006 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 will be published on the Council's web site and are available on request from the Council's Head of Financial Administration.

Notes to the Pension Fund

Note 13 Investment Management Arrangements

Investment Management is undertaken on behalf of the Council by two firms of investment managers.

At 31 March 2008 UBS Global Asset Management managed some 61.44% 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 1.0% p.a. for property. All UBS targets are net of fees.

Baillie Gifford & Co. managed 38.53% of the fund's investments at 31 March 2008. They manage UK and overseas equities on a wholly active basis with a performance target of 1% p.a. above benchmark (net of fees) over rolling three year periods.

0.03% of the Fund was managed by Council staff at 31 March 2008, consisting of cash held pending investment by the external managers.

Overall the Fund suffered a negative return of 4.6% for the year to 31 March 2008 against a benchmark fall of - 4.0%. Over three years the Fund has returned 7.7% against a benchmark of 8.6% and over 5 years it has returned 11.4% against a benchmark of 12.1%. These slightly disappointing results are due largely to under performing global equities.

Note 14 Stock Lending

As at 31 March 2008 no stock had been released to a third party under a stock lending arrangement.

Note 15 Membership Details

APT&C staff and all new employees from 1 April 1998 pay contributions of 6% of remuneration. Manual workers employed before 1 April 1998 retain the right to a contribution rate of 5% of remuneration. The following table gives details of the various bodies' membership and their contribution rates.

Membership Details as at 31 March 2008	Contributors	Pensioners	Deferred Pensioners	Employer's Contribution Rate %
Scottish Borders Council	4,010	1,896	1,589	290
Borders College	90	27	32	290
Borders College Business Consultants	34	4	21	290
Visit Scotland (Scottish Borders)	6	1	10	290
Scottish Borders Housing Association	151	18	38	340
Borders Sport and Leisure Trust	32	3	13	320
Jedburgh Leisure Facilities Trust	3	-	1	320
Gala Youth Project	1	-	2	290
Scottish Borders Careers	-	-	4	-
Scottish College of Textiles	-	24	3	-
Lothian and Borders Community Justice Authority	2	-	-	290
Others	-	2	1	-
Total	4,329	1,975	1,714	

Notes to the Pension Fund

Note 16 Membership Reconciliation 2007/08

Membership Reconciliation as at 31 March 2008	Contributors	Pensioners	Deferred Pensioners	Total
Number at 1 April 2007	4,274	1,905	1,565	7,744
New Members	581	-	-	581
Transfers to Other Schemes	(11)	-	(33)	(44)
Refunds of Contributions	(204)	-	-	(204)
Retirement of Contributing Members	(77)	77	-	-
Transfer to Deferred Pensioners	(248)	-	248	-
Re-employed Deferred Pensioners	17	-	(17)	-
Retirement of Deferred Pensioners	-	48	(48)	-
Dependants' Pensions	-	26	-	26
Deaths	(3)	(66)	(1)	(70)
Commutation (trivial pensions)	-	(12)	-	(12)
Ill Health Grant	-	-	-	-
End of Entitlement	-	(3)	-	(3)
Number at 31 March 2008	4,329	1,975	1,714	8,018

Note 17 Material Post Balance Sheet Events

Since the Balance Sheet date there has been a good deal of uncertainty and volatility in world financial markets. For example the FTSE 100 index at 17 September 2008 was around 11% below the market close at 31 March 2008. However in that period the index also reached a point nearly 6% above the 31 March 2008 level.

The effect on the asset values of the pension fund and the future outlook for employers' contributions will be assessed at the next actuarial valuation of the pension fund.

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 11. 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.

2006/07 Restated £'000	Income and Expenditure Account	Charitable £'000	Other £'000	2007/08 Total £'000
(81)	Income			
	Dividends and Interest	(11)	(85)	(96)
	Expenditure			
40	Grants to Beneficiaries	-	47	47
8	Depreciation	8	-	8
(33)	Surplus for the Year	(3)	(38)	(41)
(510)	Surplus b/f	(127)	(424)	(551)
(8)	Funding from Revaluation Reserve	(8)	-	(8)
(551)	Surplus c/f	(138)	(462)	(600)

2006/07 £'000	Balance Sheet	Charitable £'000	Other £'000	2007/08 Total £'000
	Fixed Assets			
375	Land and Buildings	148	218	366
27	Investments	6	21	27
	Current Assets			
717	Capital Advances to the Loans Fund	48	671	719
561	Revenue Advances to the Loans Fund	130	470	600
	Current Liabilities			
(10)	Sundry Creditors		(8)	(8)
1,670	Net Assets	332	1,372	1,704
	Financed by			
(551)	Revenue Reserve	(130)	(462)	(592)
(814)	Capital Reserve	(106)	(709)	(815)
(305)	Revaluation Reserve	(96)	(201)	(297)
(1,670)		(332)	(1,372)	(1,704)

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Director of Corporate Resources
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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 2008, for each of the funds. The accounting policies applied are those as set out in pages 8 to 11. 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. Arrangements are in place to ensure that appropriate asset registers include all Common Good moveable assets by 31 March 2009, in line with that guidance.

Income and Expenditure Accounts

Total 2006/07 £'000		2007/08								
		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income									
(193)	Fees and Charges	-	-	(114)	-	-	(10)	(40)	(41)	(205)
(101)	Investment Income	(1)	(1)	(30)	(36)	(6)	(13)	(18)	(11)	(116)
(5)	Grant Income	-	(7)	-	-	-	-	-	-	(7)
(299)		(1)	(8)	(144)	(36)	(6)	(23)	(58)	(52)	(328)
	Expenditure									
81	Property Costs	-	-	51	-	-	2	14	5	72
64	Depreciation	-	-	23	6	-	6	14	15	64
26	Administrative Costs	-	1	14	3	-	3	4	4	29
75	Donations and Contributions	-	3	21	30	1	1	20	26	102
246		-	4	109	39	1	12	52	50	267
(53)	(Surplus) / Deficit	(1)	(4)	(35)	3	(5)	(11)	(6)	(2)	(61)
(1,080)	(Surplus) / Deficit b/f	(24)	(19)	(342)	(223)	(50)	(147)	(254)	(138)	(1,197)
(64)	Funding from Revaluation Reserve	-	-	(23)	(6)	-	(6)	(14)	(15)	(64)
0	Transfer to Capital Reserve				(2)					(2)
(1,197)		(25)	(23)	(400)	(228)	(55)	(164)	(274)	(155)	(1,324)

Common Good Funds

Balance Sheets

Total 2006/07 £'000		2007/08								
		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Fixed Assets									
3,898	Land & Buildings	11	-	1,734	331	-	402	497	846	3,821
	Other Fixed Assets	-	-	8	1	-	-	4	-	13
612	Investments	-	-	110	541	73	-	-	-	724
9	Long Term Loan to Third Party	-	-	-	-	-	6	-	-	6
	Current Assets									
63	Sundry Debtors	-	-	37	10	1	7	17	6	78
272	Capital Advances to Loans Fund	-	-	53	6	1	97	66	49	272
1,159	Revenue Advances to Loans Fund	25	22	367	227	55	152	258	154	1,260
1	Stock	-	1	-	-	-	-	-	-	1
	Current Liabilities									
(14)	Sundry Creditors	-	-	(2)	-	-	(1)	(1)	(5)	(9)
6,000	Net Assets	36	23	2,307	1,116	130	663	841	1,050	6,166
	Financed by									
(1,197)	Revenue Reserve	(25)	(23)	(400)	(228)	(55)	(164)	(274)	(155)	(1,324)
(1,096)	Capital Reserve	-	-	(301)	(560)	(75)	(97)	(116)	(49)	(1,198)
(3,707)	Revaluation Reserve	(11)	-	(1,606)	(328)	-	(402)	(451)	(846)	(3,644)
(6,000)		(36)	(23)	(2,307)	(1,116)	(130)	(663)	(841)	(1,050)	(6,166)

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 Director of Corporate Resources
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Notes to the Common Good Fund

Capital Reserves

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

	Balance at 1 April 2007 £'000	Movement during the year £'000	Balance at 31 March 2008 £'000
Duns	-	-	-
Galashiels	-	-	-
Hawick	(285)	(16)	(301)
Jedburgh	(484)	(76)	(560)
Kelso	(65)	(10)	(75)
Lauder	(97)	-	(97)
Peebles	(116)	-	(116)
Selkirk	(49)	-	(49)
Total	(1,096)	(102)	(1,198)

Group Accounts

Introduction

The Statement of Recommended Practice (SORP) 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 58 and 59 to 61 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 2007/08:-

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Police Board
- Lothian and Borders Fire and 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 £0.637m on the Council's single entity Income and Expenditure Account becomes a group deficit of £12.632m.

Group Accounts

Joint ventures

These are entities in which the Council has an interest on a long-term basis and are jointly controlled by it and one or more other entities under a contractual or other binding arrangement. The Council has re-assessed its relationships with other entities and concluded that it was not involved in joint ventures during 2007/08.

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 2008
- **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 64 to 72.

Group Income and Expenditure Account

2006/07		2007/08		
Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
4,625	Chief Executive	5,133	(301)	4,832
2,935	Corporate Resources	7,101	(3,520)	3,581
94,705	Education & Lifelong Learning	112,222	(13,505)	98,717
3,677	Planning & Economic Development	8,926	(4,170)	4,756
50,855	Social Work	76,610	(24,153)	52,457
32,384	Technical Services	43,151	(10,819)	32,332
483	Corporate Projects	667	-	667
414	Other	19,442	(18,940)	502
(6,338)	Non-distributed costs	2,043	-	2,043
(53)	Common Good	267	(212)	55
(41)	Trust Funds	63	(8)	55
11,543	Police	11,684	-	11,684
7,231	Fire and Rescue	7,118	-	7,118
2,605	Share of operating result of associates	1,284	-	1,284
205,025	Net Cost of Services	295,711	(75,628)	220,083
216	(Profit) / Loss on disposal of assets			11
(686)	Surplus on Significant Trading Operation			(302)
9,306	Interest payable and similar charges			8,981
(1,350)	Interest receivable			(1,947)
16,542	Interest costs on pensions			18,359
(17,739)	Return on pension assets			(19,702)
351	Share of Associates' Interest Payable			294
(119)	Share of Associates' Interest and Investment Income			(169)
9,888	Share of Associates' Pension Interest Cost and Expected Return on Pension Assets			10,695
221,434	Net Operating Expenditure			236,303
	Income			
(126,117)	Revenue Support Grant			(134,663)
(40,532)	Non-Domestic Rates Pool for Scotland			(40,054)
(46,565)	Council Tax			(48,954)
(213,214)	Total Income			(223,671)
8,220	(Surplus) / Deficit for the year			12,632

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

2006/07			2007/08	
£'000	£'000		£'000	£'000
	(4,401)	(Surplus) / Deficit on the Council's single entity Income and Expenditure Account for the Year		637
		Add;		
		(Surplus) / Deficit arising from other entities included in the group accounts:-		
		Subsidiaries		
(53)		Common Good	(61)	
(41)		Trust Funds	(41)	
	(94)			(102)
		Associates		
(15)		Borders Sport and Leisure Trust	(8)	
2		Jedburgh Leisure Facilities Trust	1	
10,256		Lothian & Borders Police	9,319	
2,472		Lothian & Borders Fire and Rescue	2,785	
	12,715			12,097
	8,220	Group (Surplus) / Deficit for the Year		12,632

Group Statement of Total Recognised Gains and Losses

2006/07 £'000		2007/08 £'000
8,220	Net (surplus) / deficit for the year	12,632
(6,913)	(Surplus) / deficit on revaluation of fixed assets	(7,353)
(26,433)	Actuarial (gains) / losses on pension fund assets and liabilities	(52,994)
531	Any other (gains) / losses recognised	(7,163)
(24,595)	Total recognised (gains) / losses for the year	(54,878)

Group Balance Sheet

2007 £'000 Restated	Net Assets	2008	
		£'000	£'000
1,071	Intangible Assets		1,179
	Tangible Fixed Assets		
	Operational		
180,285	Land and Buildings	192,592	
15,417	Vehicles, Plant, Furniture and Equipment	16,817	
58,405	Infrastructure	65,510	
	Non Operational		
26,350	Assets Under Construction	33,202	
-	Assets Awaiting Disposal	1,445	
280,457			309,566
2,172	Long Term Debtors	3,116	
	Long Term Investments		
(193,253)	Share of Associates' Net Assets	(158,571)	
648	Other	751	
(190,433)			(154,704)
91,095	Total Long Term Assets		156,041
	Current Assets		
717	Stores, Materials and Work in Progress	780	
33,135	Sundry Debtors	34,653	
(7,117)	less Bad Debt Provision	(7,063)	
26,018		27,590	
33,000	Short Term Deposits	44,000	
2,487	Cash & Bank	2,782	
62,222		75,152	
	Current Liabilities		
(211)	Provisions within 12 months	(2,998)	
(36,819)	Sundry Creditors	(45,118)	
(246)	Borrowings Repayable within 12 months	(222)	
(2,011)	Due to Pension Fund	(1,339)	
(39,287)		(49,677)	
22,935	Net Current Assets		25,475
114,030	Total Assets less Current Liabilities		181,516
(171,277)	Long Term Borrowing		(173,480)
(2,247)	Provisions		(1,472)
(42)	Deferred Liabilities		(333)
(617)	Long Term Leasing Liability		(1,871)
(35,337)	Government Grants and Contributions Deferred		(53,794)
(337,416)	Pension Liability	(315,537)	
287,001	Pension Assets	273,944	
			(41,593)
(145,905)	Net Assets		(91,027)

Group Balance Sheet

2007 £'000 Restated	Financed by	2008	
		£'000	£'000
(14,475)	General Fund Balance	(14,279)	
(36)	Corporate Repairs and Renewals Fund	(41)	
(1,428)	Insurance Fund	(4,083)	
(4,730)	Capital Fund	(8,061)	
(20,669)			(26,464)
50,415	Pensions Reserve		41,593
29,746			15,129
-	Revaluation Reserve	(6,575)	
(76,115)	Capital Adjustment Account	(74,913)	
6,691	Financial Instruments Adjustment Account	6,685	
(69,424)			(74,803)
(4,012)	Revaluation Reserve of Group Entities	(3,941)	
189,595	Profit and Loss and Other Reserves of Group Entities and Share of Associates Profit and Loss and Other Reserves	154,642	
185,583			150,701
145,905			91,027

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Group Cash Flow Statement

2006/07 £'000		2007/08	
		£'000	£'000
(17,354)	Net cash inflow from revenue activities		(23,987)
	Servicing of Finance		
	Cash Outflows		
10,878	Interest paid	8,920	
66	Interest element of finance lease rental payments	49	
	Cash Inflows		
(2,093)	Interest received	(2,581)	
-	Interest element of finance lease rental receipts	(171)	
8,851	Capital Activities		6,217
	Cash Outflows		
32,414	Purchase of fixed assets	32,325	
	Cash Inflows		
(536)	Sale of fixed assets	(1,282)	
(14,847)	Capital grants received	(17,424)	
(4,991)	Other capital cash payments	(5,418)	
12,040			8,201
3,537	Net Cash (inflow)/outflow before financing		(9,569)
	Management of liquid resources		
(270)	Financing Activities		11,000
	Cash Outflows		
52,347	Repayments of amounts borrowed	47,991	
1,321	Premiums on premature repayment of loans	2,500	
298	Capital element of finance lease rental payments	292	
	Cash Inflows		
(56,517)	New loans raised	(50,000)	
(1,162)	Loans discount received	(2,509)	
(58)	New finance leases raised	-	
(3,771)			(1,726)
(504)	Net (Increase)/Decrease in Cash		(295)

Represented by

(4)	(Increase)/Decrease in Cash in Hand	(1)
(500)	(Increase)/Decrease in Bank Balance	(294)
(504)		(295)

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 20 to 49 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.

2007			Fixed Assets at Net Book Value	2008		
Scottish Borders Council £'000	Common Good Funds £'000	Trust Funds £'000		Scottish Borders Council £'000	Common Good Funds £'000	Trust Funds £'000
176,012	3,898	375	Land and Buildings	188,405	3,821	366
15,417	-	-	Vehicles, Plant, Equipment etc.	16,804	13	-
58,405	-	-	Infrastructure	65,510	-	-
26,350	-	-	Non Operational	33,202	-	-
-	-	-	Surplus Assets, held for disposal	1,445	-	-
276,184	3,898	375	Total	305,366	3,834	366
		280,457				309,566

2007 Restated £'000	Long-Term Investments	2008 £'000
(193,253)	- Scottish Borders Council Scottish Borders Council - Share of Net Assets of Associates	(158,571)
621	Common Good Funds	724
27	Trust Funds	27
(192,605)	Total	(157,820)

Notes to the Group Accounts

2007 Restated £'000	Sundry Debtors	2008 £'000
25,955	Scottish Borders Council	27,512
63	Common Good Funds	78
-	Trust Funds	-
26,018	Total	27,590

2007 Restated £'000	Sundry Creditors	2008 £'000
(36,795)	Scottish Borders Council	(45,101)
(14)	Common Good Funds	(9)
(10)	Trust Funds	(8)
(36,819)	Total	(45,118)

Note 3 Group Cash Flow

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

2006/07 £'000		2007/08	
		£'000	£'000
8,220	Deficit for the year		12,632
	Non-Cash Transactions		
(13,162)	Depreciation	(17,370)	
839	Amortisation of Grants	1,912	
5,447	FRS17 Pension adjustments	2,032	
(13,607)	Other non-cash items	(12,220)	
(20,483)			(25,646)
	Items on an Accruals Basis		
(68)	Movement in stocks	63	
570	Movement in debtors	(1,716)	
780	Movement in creditors	(1,092)	
2,478	Movement in other provisions	(2,012)	
3,760			(4,757)
	Items treated as Servicing of Finance		
(10,878)	Interest paid	(8,920)	
(66)	Interest element of finance lease rental payments	(49)	
2,093	Interest received	2,582	
-	Interest element of finance lease rental receipts	171	
(8,851)			(6,216)
(17,354)	Net cash inflow from revenue activities		(23,987)

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 fifteen members and therefore a 13.3% share of the net operating result and net assets has been consolidated.

In 2007/08 the Trust's net operating result was a surplus of £58,967. A 13.3% share results in £7,843 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 ten members, with a 10% share of the net operating result and the net assets being consolidated.

In 2007/08 the Trust's net operating result was a deficit of £4,979 of which £498 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 2007/08 was 12.17%. The Board's net operating result in 2007/08 was a deficit of £76.573m and a share of 12.17% results in £9.319m being consolidated. At 31 March 2008 the Board have an overall net liability of £1,029.6m and a share of 12.17% results in £125.298m 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 2007/08 was 15.36%. The Board's net operating result in 2007/08 was a deficit of £18.129m and a share of 15.36% results in £2.785m being consolidated. At 31 March 2008 the Board have an overall net liability of £217.153m and a share of 15.36% results in £33.355m being consolidated.

The accounts for the Police Board and Fire & Rescue Board can be obtained from the Treasurer, Finance Department, City of Edinburgh Council, City Chambers, High Street, Edinburgh, EH1 1YJ.

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 inter 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 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 CFGRs (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.

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.

Common Good Funds: the Council administers the Common Good Funds for 8 towns within its area, namely Galashiels, Selkirk, Lauder, Peebles, Duns, Hawick, Jedburgh and Kelso. 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.

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

Glossary of Terms

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.

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 and the Loans Fund.

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

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.

Glossary of Terms

Revaluation Reserve: this is a new reserve from 2007/08. The balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The balance on the reserve at 1 April 2007 was nil.

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 more 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.

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 2008 under Part VII of the Local Government (Scotland) Act 1973. These 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, Pension Fund Accounts, Common Good Fund 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 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 Director of Corporate Resources and Auditor

The Director of Corporate Resource'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 2007 - A Statement of Recommended Practice (the 2007 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.

I report my opinion as to whether the financial statements present fairly, in accordance with relevant legal and statutory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also 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 the authority's compliance with the SORP and I report if, in my opinion, it does not. I am not required to consider, nor have I considered, whether the 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 Foreword by the Director of Corporate Resources. 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. My 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 Director of Corporate Resources in the preparation of the financial statements, and of whether the accounting policies are 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:

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Scottish Borders Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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

23 September 2008