Scottish Borders Council

Report to Members and the Controller of Audit on the 2009/10 Audit

October 2010

AUDIT SCOTLAND

Scottish Borders Council

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Key Messages

We have given an unqualified opinion on the financial statements of Scottish Borders Council.

Throughout the year the council worked hard to manage its budget in financially challenging circumstances resulting in an actual outturn of £269.3 million against a revised budget of £267.1 million. In overall terms, the council incurred a deficit of £3.9 million on its income and expenditure account. After taking account of statutory adjustments of £3.2 million the sum of £0.8 million required to be met from General Fund Reserves.

The balance sheet of the council has moved from being in a net positive position in 2008/09 to being in a net negative position at the end of 2009/10: the net liability position as at 31 March 2010 is £26.5 million (2008/09: restated net asset position £51.7 million). This decline in net worth is due to the movement in the FRS17 pension liability. With the incorporation of subsidiaries and associates, the Group Balance Sheet shows a net liability of £282.3 million as at 31 March 2010 (2008/09: restated net liability of £112.1 million). The Group net worth reflects both the FRS 17 liability in the council, and the FRS 17 liability which arises from the unfunded pension schemes in associate bodies (Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board). These liabilities fall due in future years. Consequently long term financial plans will have to take account of how future revenue streams will meet the financing of these liabilities.

The council ended the year with cash backed reserves of £15.2 million (2008/09: £19.9 million). The non-earmarked element of this was £5.9 million (2008/09: £5.6 million) and is in accordance with the council's reserves strategy. The continued reduction in income streams and the increasing demand for council services arising from the economic recession increases the pressure on these reserves in forthcoming years.

The effects of the banking crisis continue to have an impact on the council and the community it serves. The collapse of two Icelandic banks resulted in the council recognising 27% of its £10 million of deposits plus interest outstanding as irrecoverable. This position improved in 2009/10 with recovery sitting at 85% for Heritable bank plc and 95% for Landsbanki Islands hf. The council also received £1.8 million in recovered deposits during the current year.

The council had corporate governance systems in place during 2009/10 that operated well, within a sound control environment. These systems will be an important part of the decision-making framework as the Council identifies priorities and makes difficult decisions at a time of contracting funding levels and increasing demand on public services.

The Business Transformation Programme (BTP) has been an area of ongoing focus for the Council and has been central to it meeting its efficiency and improvement objectives. In particular it was intended to make the Council a more customer focussed organisation. The BV2 audit reported that good progress had been achieved and consequently that the Council was well placed to deliver future improvements.

There have been a number of petitions to the Scottish Parliament concerning the proper recording, auditing and safeguarding of common good assets. Nationally, this area continues to produce a significant amount of correspondence and complaints. It is a complex exercise to conclude the provenance of assets, and officers from Legal Services, Estates and Finance have been involved in investigatory work to determine whether certain council assets ought to be transferred to the common good asset register. This work is not yet complete and additional specialist resource will be invested in this area in 2010/11.

Outlook

The most significant challenge the council faces is a reduction in funding in the years 2011 to 2014. Although the exact size of the reduction will not be known until late October 2010, the council's corporate management team have recognised the size of the task ahead and all service departments have brought forward action plans demonstrating real reductions in planned expenditure. Member engagement has been important in identifying service priorities and taking difficult spending decisions. The likely scale of the reductions means the council faces the risk of poor morale and motivation amongst staff as well as dissatisfaction amongst some service users. Never has the case been stronger for sound governance and good financial management.

In June 2010, we submitted our shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

The co-operation and assistance given to us by Scottish Borders Council members, officers and staff is gratefully acknowledged.

AUDIT SCOTLAND

October 2010

Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Scottish Borders Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.

2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) http://www.audit-scotland.gov.uk/work/scrutiny/docs/Scottish_Borders.pdf. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.

3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:

   - Improving public sector efficiency
   - Overview of local government in Scotland 2009
   - Protecting and improving Scotland's environment
   - Scotland's public finances – preparing for the future
   - Making an impact – overview of best value audits 2004-09.

4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.

5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action.* We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.

Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of Scottish Borders Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Going concern

9. The council has prepared the financial statements assuming that the council and its group can continue to operate as a going concern into the future. The council's 2009/10 single entity balance sheet shows a net liability of £26.5 million (2008/09: restated net asset position of £51.7 million) primarily as a result of an increase in pension liability of £83.6 million. With the incorporation of subsidiaries and associates, the Group Balance Sheet shows a net liability of £282.3 million as at 31 March 2010 (2008/09: restated net liability of £112.1 million). The Group net worth reflects both the FRS 17 liability in the council, and the FRS 17 liability which arises from the unfunded pension schemes in associate bodies (Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board).

10. The council has considered the scale and reason for the net liability position and determined that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, pension liabilities will be funded as they fall due through employee and employer contributions, government grants and council tax.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Chief Financial Officer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the System of Internal Financial Control

12. We were satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the council to obtain assurances on systems of control.

Accounts submission

13. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2010 at which point the audited accounts were available for presentation to members and publication.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). We are satisfied that the council prepared the financial statements in accordance with the 2009 SORP. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Chief Financial Officer and the Audit Committee.

Prior year adjustments

15. In accordance with the 2009 SORP and the decision to adopt early some IFRS accounting requirements, the council amended its opening balance sheet and comparative information in the financial statements. These changes to the prior year included:

    - PFI arrangements were accounted for in accordance with IFRIC12: Service Concession Arrangements. The cost of two PFI schools of £40 million is now included in the council's balance sheet along with the equivalent liability
    - Non-domestic rates. The 2009 SORP changed the accounting requirements. As an agency agreement the only requirement is to recognise the net debtor/creditor with the Scottish Government.

Group accounts

16. The diversity of service delivery vehicles used by local authorities' means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

17. The council has interests in four associates:

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust

- Lothian and Borders Police Board
- Lothian and Borders Fire and Rescue Board.

18. These associates have been included in the group accounts in accordance with the SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts. We completed this work through a mix of audit questionnaires and discussions with auditors of the more significant boards.

19. There were no qualifications to the accounts of Borders Sport and Leisure Trust, Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board. The accounts of Jedburgh Leisure Facilities Trust were subject to an independent examination and no matters were raised for the attention of the Trustees.

Trust funds

20. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. The Council will need to ensure it is prepared for the end of the transition period.

Key risk area 1

21. During 2009/10 the trusts received income of £0.023 million (2008/09: £0.085 million), principally dividends from external investments and interest earned on balances invested in the council's loans fund. The decline in income is largely due to the current economic climate. Disbursements to beneficiaries totalled £0.035 million (2008/09: £0.044 million). The net assets of the trusts at 31 March 2010 amounted to £1.877 million (2008/09: £1.738 million). The increase in net assets was due to a revaluation gain of £0.168 million on Trust Land and Buildings. The revaluation was carried out as part of the council's revaluation cycle.

Common good fund

22. There have been a number of petitions to the Scottish Parliament concerning the proper recording, auditing and safeguarding of common good assets. Nationally, this area continues to produce a significant amount of correspondence and complaints. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance recognised the legal distinction of the common good as a separate fund, requiring separate

disclosure within local authority financial statements and for common good asset registers to be in place by March 2009.

23. The council has disclosed common good as a separate fund in the financial statements and established a common good register. However, objections have been lodged against the Council in respect of the completeness of the common good asset register, and associated income and expenditure.

24. It is a complex exercise to conclude the provenance of assets, and officers from Legal Services, Estates and Finance have been involved in investigatory work to determine whether certain council assets ought to be transferred to the common good asset register. This work is not yet complete and additional specialist resource will be invested in this area in 2010/11.

25. The net assets of the common good fund as at 31 March 2010 amounted to £7.913 million (2008/09: £5.982 million). The increase in net assets was due to a revaluation gain of £2.263 million on the Land and Buildings. The revaluation was carried out as part of the council's revaluation cycle.

26. The council has registered the combined common good funds as a charity and there will be a requirement to ensure compliance with the Charities Accounts (Scotland) Regulations 2006 in respect of these funds in 2010/11 onwards.

27. Through our audit work we established that there is uncertainty over the provenance of certain assets, and consequently on Common Good Income and Expenditure. However, for the 2009/10 financial statements the potential materiality of those uncertainties was not sufficient to impact on the overall audit opinion.

Key risk area 2

Pension fund

28. A full actuarial valuation of the pension fund was undertaken as at 31 March 2008 and the actuary's final report was presented in February 2009. This recommended the employer's contribution rates required for 2009/10 to 2011/12 in order to ensure that sufficient funds were available to pay future benefits. As at 31 March 2008 (date of last full actuarial valuation) the pension fund had a funding level of 96.5% with a deficit of £10.8 million and the actuary recommended an employer contribution rate of 290% of employee contributions for the period 1 April 2009 to 31 March 2012 (1 April 2008 to 31 March 2009 – 300%), equating to 18% of payroll costs. The asset value reported by the actuary at the valuation date was £299.3 million. The next actuarial valuation will be as at 31 March 2011.

Significant trading operations

29. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

30. The council has one STO (SBcContracts) which undertakes a range of revenue and capital works mainly on highways and bridge construction. In the three years to 31 March 2010, the STO met the statutory target of a rolling three year cumulative surplus.

Outlook

Compliance with International Financial Reporting Standards (IFRS)

31. Due to council resource issues the review and reporting of the restated opening balance sheet was delayed. The council has started work to prepare a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. We will discuss the timetable for the review and reporting on the restated balance sheet and preparation of a full set of shadow 2009/10 IFRS-compliant statements as part of our audit planning for 2010/11. There will need to be rigorous quality assurance processes in place to identify and iron out problems encountered well in advance of the preparation of the actual 2010/11 accounts.

Key risk area 3

Pension funds

32. Separate statements for pension funds will be required in 2010/11 and the Council will need to ensure that it complies with the new guidance for financial reporting. The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the current audit which is done as part of the administering council's annual audit.

Key risk area 4

Carbon trading

33. From April 2010 a new and complex system for charging for carbon emissions was introduced. The council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions.

34. The council has registered for the Carbon Reduction Commitment (CRC) and a draft plan has been developed. Staff have received Carbon Trust building audit training and are reviewing energy usage data for all SBC buildings (including schools) for 2006/07 - 2009/10 with the intention of producing action plans for individual buildings.

Use of resources

Financial results

35. In 2009/10, Scottish Borders Council spent £315.7 million on the provision of public services and £73.4 million on capital projects. The council's net operating expenditure in 2009/10 was £269.3 million. This was met by central government and local taxation of £265.4 million, resulting in a deficit of £3.9 million, 1.48% of the net expenditure for the year. In 2009/10 the capital spend included recognition of PFI assets, for the first time, due to the implementation of International Financial Reporting Standards.

36. The budget set for 2009/10 was based on a Band D council tax level of £1,084 with planned contributions of £0.8 million from capital receipts. After taking account of statutory adjustments, an amount of £0.8 million was met from reserves.

Budgetary control

37. The council monitors expenditure closely with the Executive committee receiving regular monitoring reports with action being taken to address variances. Exhibit 1 below highlights where the main movements in the budget occurred:

Exhibit 1

Budget comparison

Service	Original Budget £'000	Revised Budget £'000	Movement £'000	Movement %
Chief Executive	4,168	4,177	9	-
Corporate Resources	10,532	10,910	378	4
Education & Lifelong Learning	105,111	97,733	(7,378)	(7)
Planning & Economic Development	2,434	2,600	166	7
Social Work	65,268	73,199	7,931	12
Technical Services	31,780	32,688	908	3
Other	45,850	45,824	(26)	-
TOTAL	**265,143**	**267,131**	**1,988**	**1**

38. The analysis highlights that, overall, the adjustments to the budget were not significant. The increase in expenditure was met principally from a net increase in the use of earmarked balances.

Financial Position

39. The following table provides some information about the council's financial position compared to other Scottish councils.

Exhibit 2

Budget comparison

Ratio	Description	Scottish Borders Council 2008/09	Scottish Borders Council 2009/10	Range for all Scottish Councils
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	**0.88** 55,693 / 63,464	**0.61** 34,401 / 56,494	**0.34 to 2.51**
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	**7.70%** 19,896 / 258,423	**5.66%** 15,247 / 269,339	**3.65% to 244.96%**
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	**4.14** 201,847 / 48,770	**4.64** 228,611 / 49,236	**0 to 6.79**
Long term assets compared to long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	**1.98** 399,492 / 201,847	**2.01** 461,416 / 228,611	**1.77 to 7.67**

40. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators (and there is one significant outlier in the case of the second ratio). These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Reserves and balances

41. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2010, the council had total funds of £15.2 million, a decrease of £4.6 million on the previous year. The main reason for the decrease has been the application of the capital funds to fund the leasing liability as an initial capital repayment for the PFI schools.

Exhibit 3

Reserves

Description	31 March 2010 £ million	31 March 2009 £ million
General Fund	10.128	10.949
Repair and Renewal Fund	0.049	0.039
Insurance Fund	1.568	1.660
Capital Fund	3.502	7.248
TOTAL	**15.247**	**19.896**

42. The general fund decreased by £0.8 million during the year to a balance of £10.1 million which equates to 3.8% of the council's net annual expenditure. Of this balance £4.3 million has been earmarked for specific purposes: devolved schools management balances held by individual schools and specific departmental reserves. This leaves an unallocated balance of £5.9 million, 2.2% of net operating expenditure which is just within the council's policy of maintaining un-earmarked reserves of 2 – 4% of revenue expenditure.

Capital performance 2009/10

43. Capital expenditure in 2009/10 totalled £73.4 million, a similar amount to the £74.1 million (restated) spent in 2008/09. These balances include PFI assets of £28.4 million in 2009/10 and £40.8 million in 2008/09 which have been included as part of the process of moving to IFRS compliant accounts in 2010/11. These amounts represent the costs of the PFI schools now included in the council's balance sheet with an equivalent liability also included.

44. If we ignore the PFI additions to fixed assets the capital expenditure in 2009/10 was £45.0 million and in 2008/09 it was £33.2 million, an increase in capital expenditure of £11.8 million. The council has continued its policy to utilise the short term investment balances to progress its capital programme rather than increase its long term borrowings due to minimal investments returns in the current climate. The level of capital spend is expected to significantly reduce in 2010/11 and beyond, with projected spend of £44.9 million in 2010/11 dropping to £11.9 million in 2013/14 as the effects of reduced funding impact on the council's capital programme.

45. The original budget for 2009/10 was £56.6 million, with a final revised budget of £44.6 million. The largest element of the reduction in the capital programme was the adjustment for the Waverley project costs of £13.4 million. A correction was made to the opening budget to bring it in line with the transfer of powers to Transport Scotland and re-phased land profiles. Transport Scotland now provides grants to the council for 100% of costs involved so there is no effect on SBC funding requirements.

46. The council continues to experience a degree of slippage in capital projects (£2.4 million as at 2 March 2010) but, as in previous years, a significant proportion of the actual spend was incurred in the final months of the year (actual spend as at 31 December 2009: £26.6 million on latest approved budget of £44.6m). The council will need to continue to improve its project management arrangements to ensure it can deliver its capital plans within the planned timescales.

47. The trend in capital investment and sources of funds is reflected in exhibit 4.

Exhibit 4

Sources of finance for capital expenditure 2006/07 – 2009/10

	Year to March 2010	Year to March 2009	Year to March 2008	Year to March 2007
Loans Fund Advances	25.7	14.6	15.7	11.7
Revenue Contributions	0.2	0.2	1.6	3.3
Grants	15.4	13.5	20.4	16.0
Capital Fund	8.2	4.4	2.6	-
Other parties	1.5	0.5	0.2	2.7
Sub-total	**51.0**	**33.2**	**40.5**	**33.7**
Finance Leases (PFI)	22.4	44.0	-	-
Total	**73.4**	**77.2**	**40.5**	**33.7**

Treasury management

48. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

49. As at 31 March 2010, Scottish Borders Council held cash and temporary investments totalling £9.7 million (31 March 2009: £32.5 million). The significant reduction in temporary investments was the result of the council utilising these funds on its capital programme rather than enter into any new external loan agreements during 2009/10 to fund capital expenditure.

50. The council received £0.569 million in investment income this year compared to £1.824 million last year due to holding less cash and the lower interest rates.

51. The level of long term borrowing remained constant at £165 million, although the level of short term borrowing increased some £5 million from £3 million to £ 8 million. Borrowing rates are low and the average cost of borrowing over the year was 4.66%. Total interest paid was £11.899 million (2008/09: £11.958 million). It is the current strategy of the council, in its Treasury Management and Investment

Strategies, that cash investments will be used for capital investment before any further borrowing is considered. We would highlight that the financial charges on existing debt may be an increasing proportion of expenditure where overall funding levels are contracting.

Key risk area 5

52. The crisis in the banking sector and the collapse of Icelandic banks in particular, prompted the council to review its treasury management practices. The council has already taken specific steps to reduce investment risk, for example increasing the investment rating criteria for its approved list of investees.

53. Scottish Borders Council had £5 million deposited with Landsbanki Islands hf, and £5 million with Heritable Bank plc when the Icelandic Banks collapsed in October 2008. The banks have been subject to administration and receivership processes since then. The anticipated level of recovery is 85% and 95% respectively (approximately). Because the council has had to continue to accrue for interest on these investments it is obliged to recognise an overall of impairment of £3.1 million in the accounts, in line with the guidance provided in Local Authority Accounting Panel (LAAP) Bulletin 82, update no.2, May 2010.

54. The council has preferential status in respect of Heritable Bank plc. In respect of Landsbanki Islands hf the council has until now been treated as a preferential creditor. Glitnir Winding-Up Board (where the council has no deposits) has since expressed the view that local authority deposits do not have priority status. Decisions on the priority status of local authority deposits will be made by the Icelandic courts and this is unlikely to be concluded before mid-2011.

55. Failure to secure preferential creditor status would have a significant impact upon the recovery of the council's investments: estimated recovery based on priority status is 94.86%, estimated recovery based on no priority status is 38.19%, and would result in a larger impairment being recognised in the council's accounts. The Chief Financial Officer has carefully considered the latest evidence available and is content to continue to account for the deposits at Landsbanki Islands hf as a preferential creditor.

56. The council has taken advantage of regulations introduced by the Scottish Government to defer the impact of the impairment charge on the General Fund until 2010/11. As a result of this decision, both the impairment charge and the interest credited to the Income and Expenditure Account have been transferred to the Financial Instruments Adjustment Account.

Pension funds

57. The council is responsible for the management and administration of Scottish Borders Council Pension Fund on behalf of the council and a number of other admitted bodies. At 31 March 2010 the fund had assets of £331.4 million (31 March 2009: £227.9 million). The fund investments are managed externally by two firms of investment managers, UBS Global Asset Management and Baillie Gifford. In 2009/10 investment management fees amounted to £0.980 million (2008/09: £0.830

million). A very small percentage (0.02%, £0.073m) of the scheme's assets was managed internally by the treasury management team. The value of investment assets are illustrated in Exhibit 5.

Exhibit 5

Pension Fund Investments

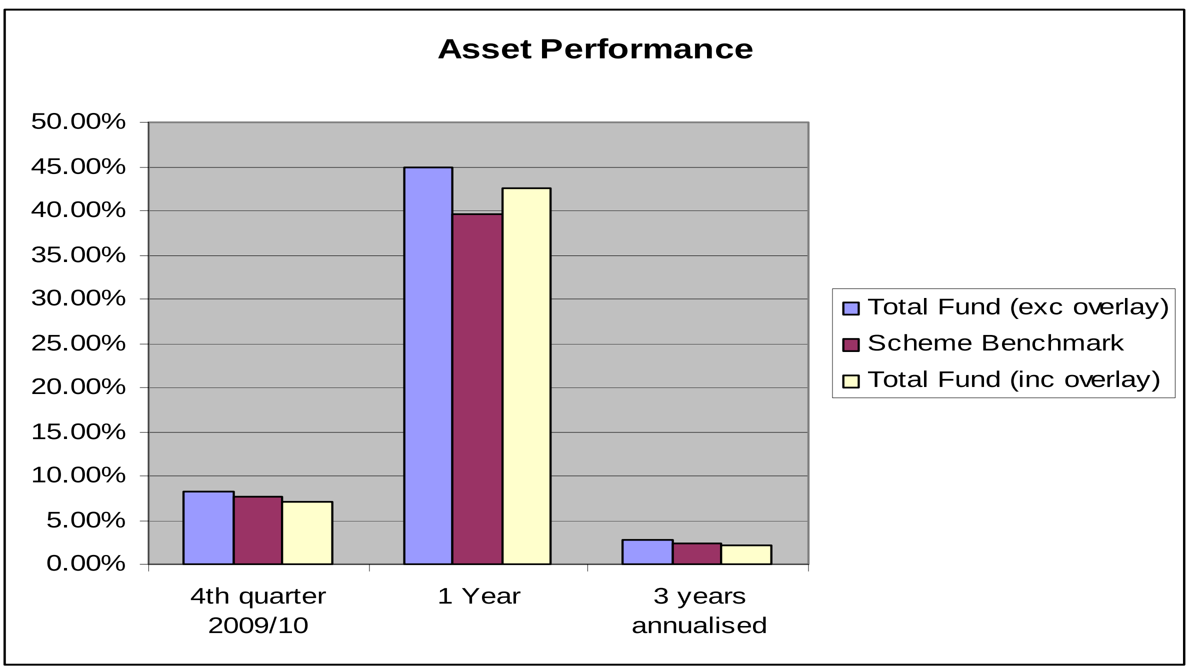
	Year to March 2010 £m	Year to March 2009 £m	Year to March 2008 £m	Year to March 2007 £m	Year to March 2006 £m
Scottish Borders Council Pension Fund	331.4	227.9	284.9	296.5	278.5

58. By the end of 2009/10, indications were that the worst of the global financial and economic crisis had passed. Low interest rates supported a rally in markets. All major asset classes rose significantly and improved manufacturing, economic and consumer confidence data suggested the world economy was recovering, but concerns remain over the sustainability of the recovery.

59. Over the year to 31 March 2010, the Fund generated an annualised return of 2.7% per annum, which outperformed the benchmark by 0.3% per annum. Exhibit 6 shows the performance of the fund over the last quarter of 2009/10, for the year to 31 March 2010 and 3 years annualised.

Exhibit 6

Scottish Borders Pension Fund



60. The Fund returns shown are before investment manager fees and the returns net of fees would be around 0.04% per annum (0.1% per quarter) below those in the chart.

Financial planning

61. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.

62. Although the Scottish Government deferred the impact (estimated at £332m) of these initial reductions until 2011/12, further details have indicated that funding reductions in 2011/12 onwards could be higher than anticipated. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. However, in common with other councils, Scottish Borders Council is forecasting a reduction in funding of 15% to 25% over the next three years. Based on the current information available the council has approved a reduction in the 2010/11 budget of £2.45 million to meet the estimated implications of the initial reduction of public sector spending implemented by the UK Government in May 2010.

63. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. In establishing its financial plans, the council has made an allowance for these factors. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.

64. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections, and the council will continue to face tough decisions about spending and priorities. The council commenced work on the budget setting process for 2011/12 and beyond in April 2010.

Key risk area 6

Asset Management

65. In 2009, we published *Asset Management in Councils.* Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.

66. In response to the national study: *Asset Management in Councils* Scottish Borders produced a corporate Property Asset Strategy and Management Plan (CPASMP) 2010/11 to 2014/15. The key section of the plan is the Corporate Strategy Implementation Plan which sets out the ongoing and future property review work derived from the Business Transformation Programme, the Single Outcome Agreement and the Council's priorities. The plan also sets out the action to help ensure the council migrates to a full property asset management planning regime in conjunction with the ongoing review of the capital programme management arrangement.

67. Progress on the property review is reported monthly to the Business Transformation Board, with associated capital expenditure reported to the Capital Management Group. The plan also proposed that updates be provided to the Audit Committee on a quarterly basis.

68. The current economic situation has implications for the management of the council's assets. In recent years the council has not placed significant reliance on capital receipts from disposals to finance capital expenditure. However, the current capital plan anticipates that capital receipts arising from the property rationalisation programme will support the capital programme in future years. The economic recession means that assets are harder to dispose of and proceeds are lower than might previously have been anticipated and the Capital Management Group is keeping this situation under review. The council will need to carefully balance the cost of retaining these assets until prices rise against the proceeds available to ensure that they achieve Best Value.

Procurement

69. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) by Scotland Excel to assess procurement performance and as a basis for the sharing of best practice and continuous improvement. Results were summarised as non-conformant, conformant, improved performance and superior performance.

70. The majority of councils were assessed by Scotland Excel as non-conformant, and this was the conclusion for Scottish Borders. However this was due to the council being one of the first to be subject to this formal assessment. All councils have agreed to participate in a national procurement improvement programme. Scottish Borders will be assessed again in November 2010.

71. As a result of the procurement change component of the Support Services Review (part of the Business Transformation Programme) the council's Corporate Procurement Strategy was approved by the council on 25 June 2009. This strategy marks a change in the council's approach to procurement in that it recognises that the Chief Executive through the Head of Procurement, and the Corporate Procurement Service, owns the route to market for every pound spent by the Council on goods, service and works. Through this approach, the money spent by the Council with external suppliers can be more clearly controlled to improve cashable benefits for the Council and obtain better value for money. This change in approach is in line with the McClelland report which identified how

the public sector (and councils) can improve their strategic approach to procurement, adhering to European Union (EU) legislation and improve purchasing practice.

Managing People

72. On 7 October 2009, the council's employee survey closed with a total of 46% of staff returning a completed questionnaire, which was an increase of 7% on the 2003 survey. This response rate was higher than the average expected for local authorities and gave the council a useful sample on which to base any action plans for the future. Focus groups were formed on the back of the survey results and the findings from these have been amalgamated and presentations given to the senior management team.

73. The council is in the process of trying to enhance the leadership capacity across the organisation through the development of the management and leadership development programmes. Assessment of the Education and Lifelong Learning Future Leaders Programme has been positive and there are a number of potential benefits identified as a result of the 2009/10 courses. The 2010/11 Development Programme has therefore been launched and candidates attended a course in September 2010. With the completion of the first phase of the Workforce Planning & Development restructure, a more centralised, corporate approach will be taken towards development and assessment of provision in this area.

74. The council had 45 equal pay cases (2008/09: 81 cases) outstanding at the end of March 2010 and has made a suitable provision in the annual accounts. The implementation of single status should have helped reduce the risk of further claims.

75. As part of the business transformation programme the council made a number of staff positions redundant during 2009/10. The council also offered some early retirement to staff both on an individual and group (Teachers) basis. The council has reviewed its policies pertaining to Early Retirement, Voluntary Severance and Compulsory Redundancy in the light of the emerging severe economic constraints the council must address in the immediate future. Furthermore recruitment, agency staff and overtime have all been identified as areas of reduced spend to meet cost saving plans. A decrease in the workforce may result in service disruption and deterioration in quality of service. We will continue to monitor the workforce planning proposals and the consequent impact in 2010/11.

Key risk area 7

Shared Services

76. Scottish Borders Council has been in discussion with three other councils about a possible shared service for various elements of the council services for over two years. It is uncertain if this will proceed to implementation and we do not observe significant activity to progress shared services.

77. The council continues to share services with NHS Borders which it has had in place for a number of years. These are:

- Mental Health
- Learning Disabilities
- Equipment and Ability Store
- Equalities and Diversity
- Joint Director of Public Health

HubCo

78. The hub initiative is a national procurement vehicle that is sponsored by central government through Scottish Futures Trust (SFT) and which is designed to operate on a regional basis, co-ordinating and procuring major/capital projects for its participants. The participants are intended to be local health boards, local authorities and any other appropriate public sector organisations as well as a private sector developer. On the 7 October 2008 the Executive committee agreed in principle to the council participating in the South East Territory hub initiative and signed a formal letter of intent to this effect.

79. On the 29 June 2009 the Executive committee agreed to the council becoming a member of the South East hub initiative. The regional hub territory that includes the Borders covers the Lothians and the Borders. Participants include NHS Lothian, NHS Borders, City of Edinburgh Council, East Lothian Council, Midlothian Council, West Lothian Council, Scottish Borders Council, Lothian and Borders Fire and Rescue Board and Lothian and Borders Police Board. The private sector developer partner for HubCo is SPACE Ltd, an alliance of Galliford Try Construction / Morrison, Fulcrum Infrastructure Group and Davis Langdon.

80. The idea is that by procuring major capital projects on behalf of a large number of public sector organisations using standardised construction contracts this will achieve economies of scale. However, at present, there is no accurate assessment of the savings that could be made.

Outlook

81. Clearly we are in a period of reduced economic growth which has major implications for how the Council intends to use the resources at its disposal to maximum effect. The changes it has got underway under the business transformation programme and its focus on best value provides a foundation for the choices and prioritisation required, looking ahead. The step change required, may, however, be considerably bigger than that contemplated up until now. The partnership arrangements forged to date may provide the opportunity for more innovative solutions in the long term.

Governance and accountability

Introduction

82. Corporate governance is about direction and control of organisations. Councils are large complex organisations and therefore good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework. The assurance and improvement plan assessed the council as having no significant risks in this area.

Scrutiny

83. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Audit Committee's remit includes assessment of the adequacy and effectiveness of the council's internal financial controls, internal control framework, risk management and corporate governance arrangements. The committee also has a wider role in terms of promoting, monitoring and developing continuous improvement of internal control and governance. The committee is well attended and its remit and working practices are in accordance with good practice principles.

84. The council operates an executive/scrutiny committee structure. The "Executive" consists of twelve elected members from the coalition administration and makes most of the decisions arising from council policies and strategies. The Scrutiny Committee is comprised of nine elected members, excluding any members on the Executive and exists, among other things, to ensure that the Executive makes decisions which reflect the best option for the council.

Roles and relationships

85. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council has an established Elected Members Training and Development programme. New members of the Audit Committee receive training on commencement and all members continue to receive training as necessary.

86. In the Assurance and Improvement Plan (AIP), published June 2010, we reported that political and managerial leadership was strong and that officers and members worked well together. Political working tended to be consensual and remained focussed on council business. Mutual respect between members and officers was demonstrated and members were well informed of the resource pressures across all departments.

Partnership Working

87. Scottish Borders Council shows evidence of good partnership working. Community planning structures are well developed at council and local levels with appropriate political, official and community representation on each. The community plan is the keystone of the council's strategic planning framework and the single outcome agreement (SOA) is supported by all partners. The SOA is viewed as a stepping stone to deliver the priorities set out in the community plan.

88. In the AIP we reported that moving beyond the community planning partnership the business transformation programme had provided the opportunity to consider effective partnership working so, for example, an outcome for the Transforming Children's Services programme is the establishment of locality integration teams, with participants from Education, Social Work, Health and the Police.

Community engagement

89. In view of the business transformation programme an important aspect to ensure commitment and success has been to ensure effective community engagement. Therefore extensive consultation has been undertaken for all of the specific programmes, whether for children's services, transforming older people' services, etc. Officers and members have gone out to the community, consulting with practitioners and service users. The Community Planning Partnership makes good use of the people's panel and the Council web-site has a readily accessible 'Borders Consults' page for easy access and response to current consultations.

Public performance reporting

90. The council has taken significant steps in the development of its public performance reporting. The council has introduced its 'Borders Performs' section of its website which provides information on how the council is performing in a range of priorities and performance indicators. The Single Outcome Agreement has committed the council to improving their performance and service quality for both the council and for their Community Planning Partners. As part of the SOA process the council is also committed to reporting progress of the council priorities each year, as agreed in the SOA, to the Scottish Government.

ICT

91. The council makes good use of ICT to support and deliver services. An overarching ICT strategy is in place and work is continuing on improving both disaster recovery and business continuity plans.

92. During the year we carried out reviews of a number of recently implemented or upgraded ICT systems. Our findings concluded that the systems were fit for purpose and were operating as expected. There were no major concerns arising from this work.

Data handling and security

93. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

94. We carried out a review of data handling and security and we found elements of good practice, for example, the council has effective leadership from Resources and a framework of policies and standards are in place. Furthermore, the council has made good progress in the risk assessment of its information sources and data transfers, and provides staff with appropriate technical and physical security measures. Regular security control updates are also provided to the Audit Committee. There is however a need for service managers to take greater ownership of information security issues, raise awareness and develop formal linkages with the corporate information security team.

Prevention and detection of fraud and irregularities

95. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

NFI in Scotland

96. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

97. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. We monitored the council's involvement in NFI during the year. The council took a structured approach to the follow-up of the 'matches' identified focussing initially on "high quality" matches. For all recommended match reports investigative work commenced between early May to the end of June 2009. For the majority of datasets where the number of matched reports was low, the process or review was completed by the end of June 2009. However, for 'Blue badge holders to benefit deceased persons' due to numbers

involved took until the end of October 2009 before investigative work was completed. More cases were identified from the ‘all matches’ rather than the ‘recommended matches’ report.

98. At the end of October 2010 the council had processed 2,010 matches with seventeen cases of fraud identified resulting in a combined potential recovery of £0.207 million. The council is in the process of recovering money in relation to 15 of the cases with potential recovery of £0.134 million.

99. New powers for conducting data matching exercises, such as the National Fraud Initiative (NFI), came into effect for Audit Scotland on 6 October 2010. The new powers allow Audit Scotland, among other things, to add some of the largest central government bodies, including the Scottish Government, Scottish Enterprise and Scottish Water to the list of participants for the 2010/11 NFI exercise. The powers are contained in section 97 of the Criminal Justice and Licensing (Scotland) Act 2010, which amends the Public Finance and Accountability (Scotland) Act 2000.

100. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. We will continue to monitor the council’s progress in this area.

Housing Benefit

101. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.

102. The risks to Scottish Borders’ benefits service were assessed and a detailed report was issued in October 2009. The council has responded to the risks we identified with an action plan. We believe the actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

Outlook

103. The introduction of Single Outcome Agreements has formalised the way that the Council works with community planning partners, to agree outcomes to meet the needs of the local population, reflecting national priorities. Measuring and monitoring achievement of milestones on the way to securing those outcomes is challenging, when it involves different partners. However, such a monitoring report is now submitted to the Scottish government each September.

104. Looking ahead, the establishment of those new ways of working provide a good foundation for planning ahead, jointly, and for the consideration of the joint delivery of certain services. At the same time the restriction of resources will add to the challenge in reaching decisions over priorities and attainable outcomes. This is where robust governance arrangements and clear lines of accountability will become of paramount importance.

Performance management and improvement

Introduction

105. An effective council requires a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision should be backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. This section provides a high level overview of performance management in Scottish Borders Council.

Vision and Strategic Direction

106. The Council has clear vision and strategic direction based on a good understanding of local context. It has focussed on the Single Outcome Agreement (SOA) as an important means of articulating where its focus lies, in conjunction with community planning partners. Internally, it has established the Business Transformation Programme, with a series of individual projects, to redesign service delivery to ensure greater effectiveness and more customer focus. This has been underway for some four years now.

107. In 2009/10 the Council extended its web site to include:

- Borders Informs – information on how to access council information
- Borders Consults – ready access to any policies and matters open for consultation
- Borders Delivers – summaries on key projects it has delivered, from hosting a national cycle tour to completion of a construction project
- Borders Performs – a collation of all documents which record how the council is performing.

Performance management

108. The SOA is a strategic document for Scottish Borders Council, to which all other plans align. It is essential that the council and its partners have arrangements in place to monitor its delivery. A progress report is submitted to the Scottish Government each September. This is placed on the web-site page: Borders Performs.

109. An internal group, headed up by the Director of Education and Lifelong Learning and representatives from each Council department has been established to examine the SOA to improve the quality and robustness of the performance measures being reported to Government.

110. Separately the Council has a Priorities document with 59 priorities. These are the key areas of delivery for the Council and part of the remit of the Performance Monitoring Panel (PMP) is to monitor their delivery and impact on a regular basis using a rolling timetable. The priorities are split into four topic areas which are reviewed by the PMP 3 times a year. The topic areas are:

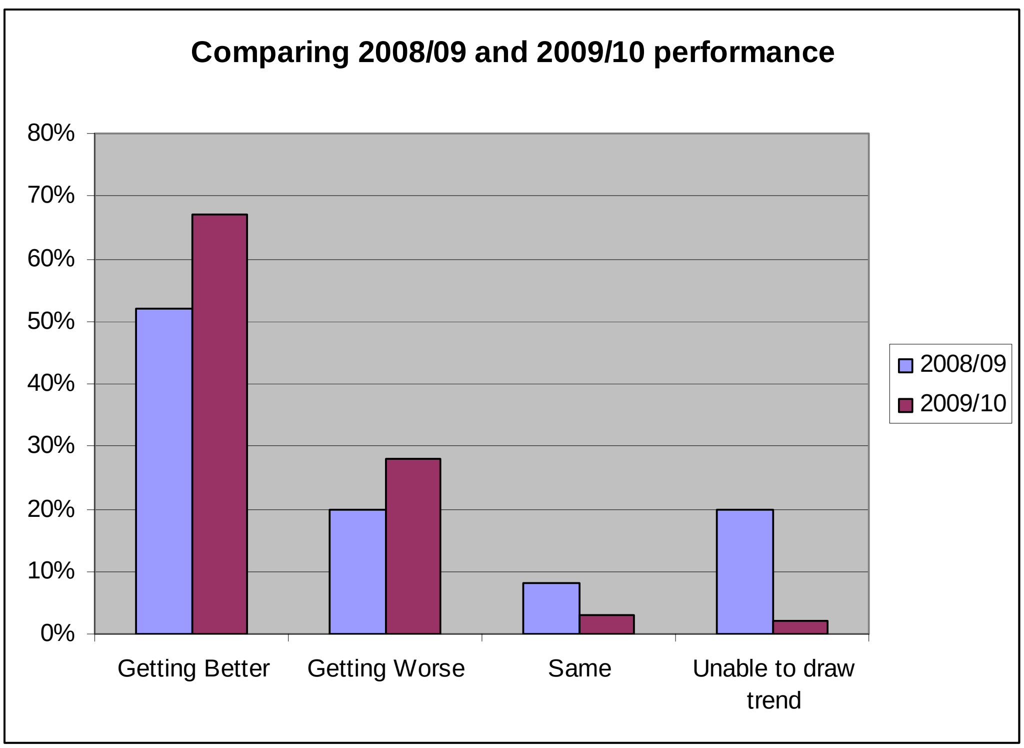
- Economy and Transport
- Education, children and Health
- Inequalities, Community and Environment
- Resources, Efficiencies and staff

111. Each of the priorities in the document has been specified into one or more high level business plan actions. Council Priorities also contain a number of high level performance measures to ensure delivery of the priorities can be measured for their impact. Each performance report presented to PMP is structured to include a commentary update, delivery and results.

112. Exhibit 7 summarises progress in 2009/10 against **116 targets** measured through the balanced scorecard.

Exhibit 7

Comparison of Achievement of Scottish Borders Council targets



113. The performance in 2009/10 against the SOA targets can be summarised as follows:

- 70% of measures demonstrate an improving or stable performance trend (67% improving and 3% stable)
- 28% of trends are getting worse
- 60% of performance measures are on or above target
- The percentage of measures where a trend cannot be drawn has reduced from 20% in 2008/09 to 2% in 2009/10

114. Overall, performance is improving and performance trends can now be drawn from 98% of the measures and this has directly impacted on the percentage of measures that can now show a positive trend (67%), but also in the percentage that now demonstrate a negative trend (28%).

115. The achievement of targets is slightly less than last year (50% on or above target in 2009/10 compared to 60% in 2008/09). This could be an early sign of the impact of the current economic situation and reduced funding that is anticipated in future years will mount pressure on the council's ability to maintain these. The council will need to review its targets to ensure they are balanced between being stretching, to drive improvement, and being realistic in the current economic environment.

Statutory performance indicators (SPIs)

116. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The SPI information is published on the council's 'Borders Performs' website.

117. In 2009/10, a total of 20 SPIs were required and these indicate a mixed picture of performance. The indicators that had the most significant movements between years were as follows:

- Payment of invoices within 30 calendar days improved significantly (87.4% compared to 76.5%)
- Slight decline in teachers sickness absence (5.7 days up from 5.6 days) but this was countered by an improvement in the sickness absence of all other local government employees (reduced to 12.5 days from 13.3 days)
- Suitability of and accessibility to council properties for disabled people improved from 87.4% to 94.6%.

Equality and Diversity

118. Scottish Borders Council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. In November 2008 Audit Scotland published the national report '*The impact of the race equality duty on council services'* on behalf of the Accounts Commission. The

report made a series of recommendations to councils and to national bodies with a role to play in the field of equalities. In October 2009 Audit Scotland followed up on the report with the Joint Equality and Diversity Manager (NHS Borders and the council). This follow-up questionnaire sought information on the progress councils have made against the recommendations in the Audit Scotland national report. The following progress was noted:

- The Council has implemented a new Equality Impact assessment policy with a toolkit to support staff
- The Council has delivered specific Equality Impact Assessment training to Council staff
- The Borders Equality Forum supports the Council and is consulted as part of the Equality Impact Assessment process
- The Joint Equality and Diversity Service (i.e. with NHS Borders) has developed a dedicated equality and diversity web page on the council's website where all Equality Impact Assessments will be published.

Efficiency

119. The full council was presented with the latest business transformation plan in April 2010 which summarised all the business transformation programmes that were currently underway within the council. The plan details the expected gross revenue savings up to 2012/13. In 2009/10, £6 million of gross revenue savings were identified, for example, through the programme of strategic reviews of children and older people services (£2.1m) and procurement transformation (£1.7m).

120. The procurement transformation programme involved creating a new centralised procurement strategy (part of the procurement component of the Support Services Review, business transformation programme). The council has set targets for, and been monitoring, the benefits realisation from the new corporate procurement processes. The cashable benefits recorded at April 2010 were £0.651 million. This was short of the benefits target for procurement of £1 million by 31 March 2010. Delays in the approval of the corporate procurement strategy and scheme of delegation, plus delays in the recruitment of procurement staff resulted in the original benefits target not being met.

121. Looking forward, the procurement service has been set a savings target of between £2.2 million and £3.4 million to be achieved between 2009/10 and 2012/13. These are significant savings targets and we will continue to monitor the realisation of benefit targets set within the business transformation plan.

The findings of the Best Value 2 Pathfinder audit

122. Best Value 2 (BV2) is the next phase of the Best Value audits. It is the outcome of an independent review of the first round of Best Value audits and takes account of the 'Crerar Review' which looked at how the burden of scrutiny and audit in the public sector could be streamlined and reduced. Five

councils were chosen by the Accounts Commission to act as ‘pathfinder’ audits to test the various aspects of the proposed approach to BV2. The five councils were:

- Angus Council
- Dundee City Council
- East Ayrshire Council
- Highland Council
- Scottish Borders Council

123. The Best Value 2 Pathfinder audit report on the Council was presented to a full council meeting on 24 June 2010 where members accepted in full the findings of the Accounts Commission.

124. Overall, the report recognised the continued progress that the Council has made in recent years and since the last best value audit in 2007. The report identified that many of the building blocks of Best Value are in place in the council. The following key points were made:

- Scottish Borders benefits from strong political and management leadership and has effective governance. It delivers good quality services which have improved in recent years and are well-regarded by the local community. The council works well with its partners and together they are achieving good outcomes for the community in areas such as health improvement, jointly-provided social care, community safety and child protection.

- The council has set out a clear strategic direction and has a coherent business transformation programme. The council has set a very challenging efficiency savings target. To help meet this it should develop fully its mechanisms for testing and scrutinising value for money across its services and firmly establish its processes for managing performance.

- Some important areas highlighted in the 2007 Best Value audit, such as regulatory and technical services, roads and asset management also still need attention.

125. For BV2 two new judgements were introduced that are designed to indicate a Council’s overall performance in respect of its statutory duties on Best Value and Community Planning. For Scottish Borders these were:

	Performance (highlighted in bold)			
Pace and direction of change	Not improving adequately	Needs to improve more quickly	**Improving well**	Improving strongly
Prospect for future improvement	Poor prospects of future improvement	Fair prospects of future improvement	**Well placed to deliver future improvement**	Strongly placed to deliver future improvement

126. Moving forward, the Council will review its improvement actions in its priorities document against the BV2 report to ensure that there are actions in place that will fully address the findings and areas of improvements identified by the audit report.

Risk Management

127. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

128. The council has a sound approach to managing risk. The council uses its Covalent Performance Management System to maintain corporate, strategic and operational risk registers for all business units. All are subject to quarterly review. The risk management team follows up issues arising from reviews with responsible officers.

Outlook

129. The long term and complex nature of many of the outcome targets, many of which can only be delivered in partnership with community planning partners, pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems Scottish Borders have in place to monitor progress and take remedial action.

Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan (AAP)	5 March 2010	15 March 2010
Review of the Adequacy of Internal Audit	25 February 2010	15 March 2010
Assurance and Improvement Plan (AIP)	25 June 2010	(Draft) 31 May 2010
Review of Internal Controls	8 September 2010	24 September 2010
Report on Financial Statements to those Charged with Governance	21 September 2010	24 September 2010
Audit Opinion on the 2009/10 Financial Statements	30 September 2010	24 September 2010
Grant claim certification		
Education Maintenance Allowance	6 July 2010	**n/a**
Criminal Justice Social Work Services	30 September 2010	**n/a**
Housing Benefit Subsidy	30 October 2010	**n/a**

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

#	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	20	**Financial reporting of registered charities** Without adequate resource plans in place for accounts preparation, in anticipation of the end of the transitional arrangements (March 2010), there is a risk that the accounts for registered charities will not comply with the requirements of the Office of the Scottish Charity Regulator. Non-compliance may have an impact on the tax status of those charities, and for the reputation of the council.	Financial Services will be addressing the issue of accounting for registered charities in a planned way in the run up to the end of the transition arrangements in March 2010 to ensure OSCR compliance. Liaison will be taking place with relevant bodies including Legal staff within the Council.	D Collins	Nov 2010 to Mar 2011
2.	27	**Common Good assets** Where the provenance of fixed assets has not been clarified there is a risk that the common good asset register is misstated, and this will impact on the income and expenditure that is recorded against common good assets. Clarity is also required because restrictions apply to a change in use of a common good asset.	The new Common Good Solicitor post will be tasked with resolving any area where there is a lack of clarity. The post will be temporary until 30/09/11.	R McGeoch	30 Sept 2011
3.	31	**Introduction of IFRS** By implementing IFRS in a staged fashion, through a restated balance sheet and a set of shadow accounts, the Council will be able to identify complex areas and areas which require additional data, from Estates and HR for example. Otherwise there is a risk that data gaps become evident at the time of the 2010/11 audit when time may be short for the amendment of the accounts.	Corporate Finance will be addressing IFRS issues in a planned way in the run up to the completion of the 2010/11 accounts, in liaison with colleagues in Estates, HR and other relevant departments. It is intended to address as many of the IFRS and associated issues before the traditional year end processes as possible. The recent appointment of an Accounting Services Manager, with significant IFRS knowledge and background, will facilitate this process.	P Fagan	Nov 2010 to Mar 2011

#	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	**32**	**Pension Fund** Without adequate resource plans in place for accounts preparation, in anticipation of separate financial statements for Scottish Borders Pension Fund there is a risk of non-compliance with new guidance.	Corporate Finance will be addressing the pension fund accounting issues in a planned way in the run up to the new financial year. A project is under way to address the various strands of the potentially complex exercise and resources will be identified to ensure compliance.	P Fagan	Nov 2010 to Mar 2011
5.	**51**	**Treasury management** At a time of contracting levels of funding the Council must keep a tight control of its level of borrowing, ensuring that reductions to capital plans are duly reflected in all aspects of treasury management and that repayment of principal is reflected in long term financial plans. There is a risk of the council focussing on the low level of interest rate, making borrowing seem attractive in the short term.	The council have clear Treasury Management and Investment Strategies to ensure that all borrowing complies with the Prudential Code and is affordable and sustainable.	R Webb	Ongoing
6.	**64**	**Financial forecast 2011 - 2013** Current forecasts present significant spending gaps in 2011/12 and 2012/13. It will be challenging to produce balanced budgets.	The budget setting process for 2011/12 and beyond got under way in April 2010.	R Webb	Ongoing
7.	**75**	**Workforce planning** The effect of the retirement / redundancy programme and reduction in budgets for recruitment, agency staff and overtime may result in service disruption and deterioration in quality standards.	All retirements and redundancies are planned and managed to ensure knowledge transfer and to minimise potential disruption.	T Logan	Ongoing