



Highland Council

The Statement of Accounts

Year Ended 31st March 2007

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1. Introduction

The Statement of Accounts (the Accounts) report on the Council's financial performance for the year ended 31 March 2007. The Accounts exclude the transactions, assets and liabilities of the Pension Fund on pages 67-76 and the Common Good Funds and Trust Funds which are disclosed separately on pages 77-87.

The Accounts also include Group Accounts of the Council. The Group comprises the Highland Council; its subsidiaries (Inverness and Nairn Common Good Funds); and its associates. The associates are the Council's share (based on the proportion of voting rights of Highland Council Members) of the Northern Joint Police Board; the Highland & Islands Fire Board; the Highland & Western Isles Valuation Joint Board, and the Highlands and Islands Transport Partnership, and are disclosed on pages 89-98.

2. Statement of Accounts (the Accounts)

The Accounts comprise:

- (i) Accounting Policies - explain the basis of the figures included within the Accounts and the policy followed particularly where there is more than one acceptable basis.
- (ii) Income and Expenditure Account – using UK GAAP compliant accounting conventions it records the income receivable and the expenditure incurred in conducting the Council's business. It includes the value of fixed assets actually consumed and the projected value of retirement benefits earned by employees in the year.
- (iii) Statement of Movement on the General Fund Balances – complying with proper accounting practices the General Fund records the income and expenditure which is taken into account in determining the Council's budget requirement and in turn its Council Tax for the year. This reconciliation statement summarises the differences between the surplus/deficit on the Income and Expenditure Account and the General Fund Balance.
- (iv) Balance Sheet - reports the assets, liabilities, funds and reserves of the Council.
- (v) Statement of Total Recognised Gains and Losses - presents all gains and losses in the year, not just those reported in the revenue accounts.
- (vi) Cash Flow Statement - summarises the inflows and outflows of cash arising from revenue and capital transactions with third parties.
- (vii) Notes to Core Statements – provides more detail on certain aspects contained within the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses and Cash Flow Statement.

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- (viii) Housing Revenue Account (HRA) - reports the major elements of expenditure on the council housing stock and how that expenditure has been financed. The totals on the Housing Revenue Account are included in the Income and Expenditure Account.
- (ix) Non-Domestic Rate Income Account - shows the non-domestic rates collected by the Council and paid into the national pool administered by the Scottish Executive. The Account also shows the sum distributed from the national pool to the Council, representing the Council's share of National Non Domestic Rate (NNDR) income. The Council's share of the NNDR pool is transferred to the Income and Expenditure Account.
- (x) Council Tax Income Account - shows the gross tax income, adjustments for benefits, discounts, relief, deductions and provisions made for bad and doubtful debts. The net income on the Account is transferred to the Income and Expenditure Account.
- (xi) Corporate Governance Assurance Statement - states the Convenor's and Chief Executive's view of the Highland Council's governance arrangements.
- (xii) Group Accounts – includes the Group Income and Expenditure Account; Group Balance Sheet; Group Cash-flow Statement; Group Statement of Total Recognised Gains and Losses and Group Statement of Internal Financial Controls.
- (xiii) Statement of Responsibilities - sets out the Authority's and the Director of Finance's responsibilities.

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3. Summary of Financial Results

(a) Balances

The movements and balances on the Council's revenue reserves for 2006/07 are summarised below.

| | Balance as at 1 April 2006 £m | Surplus/ (Deficit) for the year £m | Increase/ (Decrease) in Earmarking £m | Balance as at 31 March 2007 £m |
|---|--|---|--|---|
| General Fund (non-earmarked) | 13.905 | 9.131 | (5.167) | 17.869 |
| Earmarked: | | | | |
| Spend to Save | 2.161 | | (0.112) | 2.049 |
| Central Energy Efficiency | 0.163 | | 0.227 | 0.390 |
| Joint Ventures | 0.367 | | (0.064) | 0.303 |
| Devolved School Management (DSM) | 0.326 | | 2.543 | 2.869 |
| Fire Board Transitional Funding | | | 1.112 | 1.112 |
| IT Investment | 0.870 | | 0.337 | 1.207 |
| Winter maintenance | 1.250 | | 0.059 | 1.309 |
| Energy Investment Fund | 1.000 | | 0.504 | 1.504 |
| Learning Disability reprovisioning | 0.960 | | 0.395 | 1.355 |
| Adult Basic Literacy and Prison Literacy | - | | 0.166 | 0.166 |
| | 7.097 | - | 5.167 | 12.264 |
| General Fund - Total | 21.002 | 9.131 | - | 30.133 |
| Housing Revenue Account | 9.410 | (0.517) | | 8.893 |

In accordance with CIPFA Guidance "Reserves and Balances in a Local Authority" the Council has determined that General Fund balances should be held for contingencies and for specific initiatives. A sum equivalent to 3% of the revenue budget, approximately £14m, will be retained for contingent purposes while sums in excess of this figure may be earmarked to meet in full, or part, future projects or commitments.

The surplus on the General Fund for the year is £9.131m. In addition a further £5.788m of balances were earmarked within General Fund with £0.621m utilised in 2006/07.

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(b) General Fund Service

The financial results for the General Fund Services for the year are shown below. This presentation differs from that shown in the Income and Expenditure Account which is set out in accordance with the Best Value Accounting Code of Practice's (BVACOP) standard classification of services which allows comparison to be made with other Scottish Local Authorities. The following presentation allows comparison of the 2006/07 results against budget, on the basis of the Council's internal service analysis.

| | Budget | Actual | Over/ (Under) | Notes |
|---|----------------|----------------|------------------|-------|
| | £m | £m | £m | |
| Education, Culture and Sport | 190.308 | 188.939 | (1.369) | 1 |
| Other Housing | 2.835 | 2.143 | (0.692) | 2 |
| Building Maintenance | (0.443) | (0.484) | (0.041) | |
| Planning, Development, Europe and Tourism | 5.820 | 5.447 | (0.373) | 3 |
| Social Work | 81.827 | 82.196 | 0.369 | 4 |
| Transport, Environment and Community | 54.008 | 53.043 | (0.965) | 5 |
| Chief Executive's Office | 17.735 | 17.322 | (0.413) | 6 |
| Corporate Services | 5.867 | 5.426 | (0.441) | 7 |
| Finance Services | 5.809 | 5.712 | (0.097) | 8 |
| Housing Benefits | - | 0.014 | 0.014 | |
| Property and Architectural Services | 5.847 | 5.151 | (0.696) | 9 |
| | 369.613 | 364.909 | (4.704) | |
| <u>Joint Board Requisitions:</u> | | | | |
| Northern Joint Police Board | 22.128 | 21.960 | (0.168) | 10 |
| Highland & Islands Fire Board | 15.392 | 15.392 | - | |
| Highland & Western Isles Valuation Joint Board | 2.206 | 2.119 | (0.087) | |
| Highlands and Islands Transport Partnership | 0.063 | 0.063 | - | |
| Non Domestic Rate Relief | 0.450 | 0.463 | 0.013 | |
| Loan Charges | 40.994 | 39.205 | (1.789) | 11 |
| Interest on Revenue Balances | - | (1.412) | (1.412) | 12 |
| Interest and Investment Income | - | (0.014) | (0.014) | |
| Total General Fund Services | 450.846 | 442.685 | (8.161) | |

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| | Budget | Actual | Over/ (Under) | |
|---|----------------|-----------------|------------------|-------|
| | £m | £m | £m | Notes |
| Appropriations to/from Reserves | | | | |
| Use of Repairs & Renewals Fund | (0.053) | (0.053) | - | |
| Use of Capital Fund | (0.184) | (0.183) | 0.001 | |
| Use of HRA balance | (0.493) | (0.493) | - | |
| Insurance Fund | 0.521 | 0.521 | - | |
| Affordable Housing | 2.498 | 2.453 | (0.045) | |
| Amount to be funded from Taxpayers/ General Fund Balance | 453.135 | 444.982 | (8.205) | |
| Revenue Support Grant | (279.694) | (279.695) | (0.001) | |
| Non-domestic Rates | (78.394) | (78.401) | (0.007) | |
| Council Tax | (95.537) | (100.804) | (5.267) | 13 |
| | (0.490) | (13.970) | (13.480) | |
| Unallocated pressures/growth | 2.240 | - | (2.240) | 14 |
| Single Status Provision | - | 3.804 | 3.804 | 14 |
| Equal Pay Provision | - | (0.169) | (0.169) | 15 |
| Restructuring Costs Provision | - | 1.424 | 1.424 | 16 |
| Joint Ventures loan provision reversal | - | (0.220) | (0.220) | 17 |
| Transfer to ear-marked balances | 2.089 | 5.167 | 3.078 | 18 |
| Use of non ear-marked balances | (3.839) | (5.167) | (1.328) | 18 |
| Total General Fund (Surplus)/Deficit | - | (9.131) | (9.131) | |

The Council's General Fund out-turn was a surplus of £9.131m for the year. The main variations from budget during the year were as follows:

- 1 The budget for Education, Culture & Sport (ECS) shows an underspend of £1.369m. However, included in this is a DSM budget surplus of £2.543m. The position for the non devolved part of the budget was an overspend of £1.505m mainly due to out of authority placements being overspent by £0.726m and supply teacher costs being £0.415m more than budget due to higher than usual absence levels.
- 2 Underspending on Other Housing by £0.692m was due to increased success in claiming Housing Benefit for homelessness costs and efficiencies in the delivery of the homelessness service.
- 3 The underspend on the PDET budget of £0.373m is mainly the result of higher than budgeted income from planning fees and building warrant charges.

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- 4 The Social Work service budget is showing an overspend in the year of £0.369m due to budgetary pressures in the delivery of childcare and families; delayed discharges; direct payments and home care services, which combined have overspent by £2.477m. Significant savings in other headings, mainly due to staff vacancies (£1.400m); additional income (£0.295m) and the supported employment budget being under by £0.388m have helped reduce the overspend.
- 5 TEC services' budget is underspent by £0.965m as a result of the profit before FRS 17 pension and depreciation charges made by the statutory trading activities aligned to the service.
- 6 The budget for the Chief Executive's office shows an underspend of £0.413m. The main contributor to this variance is income recovery being £0.380m more than anticipated.
- 7 The Corporate Services budget is underspent by £0.441m, which arises from savings in staff costs due to vacancies and income from the introduction of the Private Landlord Registration Scheme being greater than anticipated.
- 8 The Finance Service underspend of £0.097m is attributable to staff vacancy savings and a one off refund on the audit fee.
- 9 Property & Architectural Services' budget is underspent by £0.696m. This is due to an under spend on the property maintenance budget of £0.204m.; increased rental income from properties of £0.114m; and earlier than anticipated fee income of £0.350m.
- 10 The saving of £0.168m on the Police Board requisition is due to the Council's share of the actual costs of the Police service being less than the estimated share of the costs.
- 11 Loans charge interest and repayments cost are under budget by £1.789m as a result of favourable long term borrowing rates; good returns on investments; and an improved cash flow throughout the year.
- 12 Interest on revenue balances is a year end allocation and due to its potentially volatile nature is not budgeted for during the year. Therefore all of the £1.412m on this heading contributes to the general fund surplus for the year.
- 13 Income from Council Tax was £5.267m more than budgeted for as a result of improved collection rates and an increase in the number of taxable properties.
- 14 A provision for budgetary pressures and growth was made when the budget was set: it was not required throughout the year. The full sum was therefore targeted to support provision for Single Status. The Single Status agreement is not yet in place but a provision has been made to cover any likely costs which may in due course apply to 2006/07.
- 15 In 2005/06 a provision was made for the cost of staff who had an entitlement to an equal pay compensation package from the Council. In 2006/07 the provision for this has been reduced by £0.169m.
- 16 During 2006/07 The Council initiated a management restructuring process. The costs

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associated with this are not yet finalised but a provision has been made for any costs which could apply to 2006/07.

- 17 The Council had previously granted a loan to Highland Prospect and consequently fully provided for it as a bad debt. However 2006/07 saw the successful repayment of the £0.220m loan.
- 18 During the year ear-marked funds increased by £5.167m. This is mainly made up of increase from interest on revenue balances being added; transfer from underspend on Fire requisitions for future year's potential pressures, £1.112m; a budget feed of £1.000m to the Energy Efficiency Investment Fund; and transfer of £2.874m to DSM balances.

(c) Housing Revenue Account (HRA)

| | Budget | Actual | Variance |
|---------------------------|---------------|---------------|-----------------|
| | £m | £m | £m |
| Staff | 5.107 | 5.872 | 0.765 |
| Other Costs | 22.958 | 21.052 | (1.906) |
| Loan Charges and Interest | 16.182 | 15.989 | (0.193) |
| Transfer to General Fund | 0.493 | 0.493 | - |
| | 44.740 | 43.406 | (1.334) |
| Income to HRA | (44.159) | (42.889) | 1.270 |
| Total | 0.581 | 0.517 | (0.064) |

The HRA utilisation of balances was £0.517m against a budget of £0.581m.

(d) Group Financial Results

The financial results for the Group are summarised below:

- Net Expenditure before Reserves Movements
£435.882m
- Surplus for the year
£22.555m
- Balances available
£38.936m
- Increase/(decrease) in Net Assets
£84.501m

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(e) Capital Programmes

| | Net Expenditure | | | Notes |
|---|-----------------|----------------|------------------|-------|
| | Budget | Actual | Over/ (Under) | |
| | £m | £m | £m | |
| General Fund | | | | |
| Education, Culture & Sport | 10.697 | 8.475 | (2.222) | 1 |
| Other Housing | 0.075 | 0.009 | (0.066) | |
| Planning, Development, Europe & Tourism | 1.094 | 0.884 | (0.210) | 2 |
| Social Work | 1.952 | 0.729 | (1.223) | 3 |
| Technical, Environmental & Community | 16.266 | 16.102 | (0.164) | 4 |
| Strategic Property Management | 4.836 | 3.835 | (1.001) | 5 |
| Accommodation Rationalisation | 2.000 | 1.392 | (0.608) | 6 |
| Chief Executive's | 1.815 | 1.054 | (0.761) | 7 |
| Total | 38.735 | 32.480 | (6.255) | |
| Housing HRA | - | (2.140) | (2.140) | 8 |

Notes

1. The Education, Culture & Sport Service is showing an underspend of £2.222m against their programme of £10.697m. This underspend is mainly due to Scottish Executive grant for School Buildings Improvement Fund being greater than originally anticipated and consequently £1.340m. was unused in the year, this balance will be carried forward to be spent in 2007/08. There was also an underspend of £0.780m in the 21st Century School Improvement Programme which will be available for use in 2007/08.
2. Planning, Development Europe and Tourism Service has a year end underspend of £0.210m against a programme of £1.094m. This is mainly due to slippage on projects for Kinlochewe Village Enhancements, Auldearn High Street Enhancements and North Kessock Access Upgrades.
3. The Social Work programme shows an underspend of £1.223m against a target of £1.952m, due in main to delays in starting a number of projects and also lower than anticipated expenditure on the following projects: Easter Ross Children's Centre; Care Home refurbishment programme; New Craig's resettlement programme; and office accommodation. The Service also received £0.200m unbudgeted income which will be carried forward to 2007/2008.
4. TEC Services capital budget was underspent by £0.164m. as a result of underspends on: road improvements, £0.625m; bridge structures, £0.283m; contaminated land £0.270m; environmental improvements £0.278m. These were compensated for by overspends on piers and harbours, £0.582m; waste facilities, £0.596m; and flood prevention schemes £0.114m.
5. Strategic Property Management programme was underspent by £1.001m due to delays caused by a lack of internal and external resources both professional and contractor.

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6. Accommodation Rationalisation budget was underspent by £0.608m as a result of structural problems causing delays on the Drummie project.
7. The Chief Executive's programme is underspent in the year by £0.761m mainly due to the receipt of unbudgeted grant for the Inverness City Vision capital projects.
8. The expenditure on the HRA capital programme was £13.474m against a programme figure of £13.457m. The programmed expenditure was budgeted to be fully funded from the sale of council houses. However council house sales in the year were short of their £13.457m target by £2.123m. This funding gap was met by the use of £2.140m from the HRA share of the Usable Capital Receipts Reserve. The remaining HRA balance on this reserve at the year end is £2.997m.

4. Debt Rescheduling Exercise

During the year the Council, in consultation with its treasury advisors, undertook two loan rescheduling exercises to take advantage of interest lower rates.

- a) In May 2006, eight Public Works Loan Board (PWLB) loans, with an average remaining life of 18.7 years and an average rate of 4.73%, totalling £31.39m were repaid and replaced with one PWLB fixed rate maturity loan repayable over 40.5 years at a rate of 4.35%. Breakage costs were minimal.

The effect of the rescheduling was to generate savings of approximately £0.099m in 2006/07 and £0.119m per annum for the following 17 years. The total estimated saving to the Council is £2.2m.

- b) In January 2007 13 PWLB fixed rate maturity loans, with an average remaining life of 19.5 years and an average interest rate of 4.74% were repaid and replaced with three PWLB fixed rate maturity loans repayable over 45.5, 46.5 and 47.5 years, all at a rate of 4.25%. Breakage costs were minimal.

The effect of the rescheduling was to generate savings of approximately £0.111m in 2006/07 and £0.665m per annum for the following 18.5 years. The total estimated saving to the Council is £13.3m.

Summary of Outstanding Deferred Revenue Costs

| | Outstanding 31 March 2006 £m | Incurred 2006/07 £m | Written off 2006/07 £m | Outstanding 31 March 2007 £m |
|-----------|---|------------------------------------|---------------------------------------|---|
| Premiums | 47.594 | - | (2.085) | 45.509 |
| Discounts | (1.417) | - | (0.080) | (1.337) |
| | 46.177 | - | (2.005) | 44.172 |

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5. Major Changes in Accounting Practice

SORP Changes

In order to comply with revised national accounting rules relating to the 2006/07 Accounts the following changes in accounting policies have been necessary: capital financing charges for the use of assets are no longer chargeable to the Income and Expenditure account; the Asset Management Revenue Account, which matched the reversal of capital charges with depreciation and external interest is therefore also no longer required; gains and losses on the sale of assets are now recognised in the Income and Expenditure account and reversed out in the Statement of Movement on the General Fund Balance.

Insurance Fund

During 2006/07 financial year an insurance fund was created for the Council. For economic reasons the Council decided that certain categories of risk would not be covered through a conventional insurance policy with an insurance company. Rather the Council self insures properties for the risks of Storm, Flood, Burst Pipes and Malicious Damage. The Council has also determined an appropriate level of excess for each category of insurance purchased, based on its assessment of risk and previous losses. The insurance fund will be used to meet the cost of these excesses and any claims not covered by commercial insurance policies.

Industrial Estate Income

The net surplus to the Council from the operation of its industrial estates is now classified in the Income and Expenditure account as investment income. It had previously been reported in the Consolidated Revenue Account under Planning and Development Services.

Group Accounts

Due to a significant change in the value of its asset base and therefore it's relevant materiality Nairn Common Good Fund has been incorporated into the Group accounts as a subsidiary for the first time. Also Highlands and Islands Transport Partnership, which came into existence on 1 April 2006 has been incorporated into the Group Accounts as an associate: the share incorporated is based on the proportion of Highland Council members' voting rights in the Partnership.

Further information on the changes to accounting policies is available on page 12.

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Effect of changes in accounting policies.

| | Revenue Account 2005/06 £m | Capital Financing Charges £m | Additional Statutory Trading Orgs Surplus £m | Govt Grants Deferred £m | Gains/ losses on sale of fixed assets £m | Invest- ment Income £m | Income & Expend Account 2005/06 £m |
|-----------------------------------|-------------------------------------|---------------------------------------|---|----------------------------------|---|---------------------------------|--|
| Council Housing | (0.689) | (9.178) | (0.020) | (0.014) | - | - | (9.901) |
| Cultural and Related | 22.778 | (1.268) | - | (0.057) | - | - | 21.453 |
| Education | 206.541 | (17.280) | (0.006) | (0.430) | - | - | 188.825 |
| Environmental | 27.511 | (0.912) | (0.027) | (0.038) | - | - | 26.534 |
| Housing | (2.344) | (0.053) | - | (0.001) | - | - | (2.398) |
| Planning and Development | 3.054 | (0.012) | - | (0.129) | - | 1.586 | 4.499 |
| Roads and Transport | 42.907 | (7.863) | (1.332) | (0.934) | - | - | 32.778 |
| Social Work | 87.527 | (1.425) | - | - | - | - | 86.102 |
| Central Services to the Public | 10.889 | (0.408) | - | (0.019) | - | - | 10.462 |
| <u>Requisitions:</u> | | | | | | | |
| Police Board | 20.694 | - | - | - | - | - | 20.694 |
| Fire Board | 17.831 | - | - | - | - | - | 17.831 |
| Valuation Board | 1.937 | - | - | - | - | - | 1.937 |
| Corporate and Democratic core | 10.161 | - | - | - | - | - | 10.161 |
| Non distributed costs | 4.216 | (0.897) | - | - | - | - | 3.319 |
| NET COST OF SERVICES | 453.013 | (39.296) | (1.385) | (1.622) | - | 1.586 | 412.296 |

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| | Revenue Account 2005/06 £m | Capital Financing Charges £m | Additional Statutory Trading Orgs Surplus £m | Govt Grants Deferred £m | Gains/ losses on sale of fixed assets £m | Invest- ment Income £m | Income & Expend Account 2005/06 £m |
|---|-------------------------------------|---------------------------------------|---|----------------------------------|---|---------------------------------|--|
| NET COST OF SERVICES | 453.013 | (39.296) | (1.385) | (1.622) | - | 1.586 | 412.296 |
| Surplus on Trading Undertakings | (0.515) | (1.396) | 1.385 | - | - | - | (0.526) |
| Asset Management Revenue Account | (12.115) | 10.493 | | 1.622 | - | - | - |
| Gain/(loss) on disposal of fixed assets | - | - | | - | 2.465 | - | 2.465 |
| Interest payable and similar charges | - | 31.975 | | - | - | - | 31.975 |
| Premiums and discounts | 1.776 | (1.776) | | - | - | - | - |
| Interest on Revenue Balances | (1.051) | - | | - | - | - | (1.051) |
| Interest on Investment Income | (0.020) | - | - | - | - | (1.586) | (1.606) |
| Pension interest cost and expected return on pension assets | 1.699 | - | | - | - | - | 1.699 |
| NET OPERATING EXPENDITURE | 442.787 | - | - | - | 2.465 | - | 445.252 |

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6. Major Fixed Asset Acquisitions and Disposals

The HRA and General Fund capital programmes are, with the few exceptions noted below, geared towards improving or enhancing the Council's existing assets. Examples of some major projects of enhancements during 2006/07 include in the ECS programme: enhancing schools in the "21st Century Schools" programme; enhancing Inverness Museum and Art Gallery as part of Highland 2007. Major expenditure was also incurred on road and pier improvements, specifically on the Achnasheen-Kinlochewe and Broadford-Armadale roads.

General Fund assets with a total net book value of £3.196m were sold. The largest of these was land at Drummie Farm, Golspie.

The Housing Revenue Account programme invested £13.474m in the council house stock and sold houses with a net book value of £11.227m.

7. Summary of Future Capital Investment Plans

On 1 February 2007 the Council agreed an updated capital investment programme covering the years up to and including 2010/11.

In total, the level of future gross capital investment on General Fund Services is programmed at £291m.

Examples of major capital investment priorities are set out below.

- £102m on lifeline roads and road improvements including Inverness Trunk Link Road;
- £20m on bridges and harbours;
- £5m on improving culture, leisure and sport facilities;
- £22.6m on the Highland year of culture 2007 and projects with a lasting cultural legacy;
- £3m on improving street lighting, road safety and town centre safety;
- £14.5m on health and safety improvements and other statutory compliance in the Council's buildings;
- £4m to refurbish or replace 12 residential homes or day centres for people with care needs;
- £3m on children's units and other premises for people requiring care and support;
- £3.6m on making Council buildings accessible to people with disabilities;
- £54m on 21st Century schools across the Highlands;
- £11m on waste management including recycling;
- £23m on flood prevention; and
- £2.5m on energy efficiency in Council buildings.

In relation to Housing Revenue Account (HRA) gross capital investment, £13m has been approved for 2007/08. The Council has not approved a capital investment plan for the HRA beyond this year, pending the development of a Standard Delivery Plan (SDP) in response to the tenants rejection of stock transfer. The HRA SDP will set out the long-term HRA investment needs and funding strategy, and will be considered by the Council towards the end of 2007.

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8. Approved Methods and Sources of Raising Capital Finance

Finance is only raised in accordance with legislation, and within this the Council has the following approved methods and sources of raising capital finance:

| | <u>Fixed</u> | <u>Variable</u> |
|--|--------------|-----------------|
| On Balance Sheet | | |
| Public Works Loans Board Loans | Yes | Yes |
| European Investment Bank Loans | Yes | Yes |
| Market Long-term Loans | Yes | Yes |
| Market temporary Loans | Yes | Yes |
| Local temporary Loans | Yes | Yes |
| Local bonds | Yes | Yes |
| Overdraft | No | Yes |
| Internal (Capital Receipts and Revenue Balances) | Yes | Yes |
| Finance Leasing | Yes | Yes |
| Off Balance Sheet | | |
| Deferred purchase/covenants | Yes | Yes |
| Other Methods of Financing | | |
| Government and EC Capital Grants | | |
| Public Private Partnerships | | |
| Lottery Monies | | |

All forms of funding are considered in light of the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers to take the most appropriate form of borrowing from approved sources.

9. Affordable Social Housing (Landbanking)

The Council operates a capital fund to account for the transactions relating to the Affordable Social Housing (Landbanking) initiative. During 2006/07 loans totalling £2.016m were advanced to the Highland Housing Association (HHA) with £0.886m repaid by 31 March 2007.

The Council sold land valued at £0.990m to Housing Associations, and the proceeds were added to the Capital Fund. In addition the Council appropriated £2.453m of income received from the reduction in second home's Council Tax discounts from 50% to 10% into the Capital Fund.

EXPLANATORY FOREWORD

10. Financial Reporting Standard 17 "Retirement Benefits" (FRS 17)

FRS 17 ("Retirement Benefits") has been adopted in preparing the Accounts for 2006/07. FRS 17 prescribes how employing organisations are to account for pension benefits earned by employees in year and the associated pension assets and liabilities.

Highland Council participates in The Scottish Teachers' Superannuation Scheme which is a national scheme administered by the Scottish Executive. This scheme is exempt from the accounting requirements of FRS 17 as pension assets and liabilities cannot be accurately allocated to each participating authority therefore the Accounts reflect only the cash payments made to the scheme as a participating employer. The exception to this is unfunded pension enhancements for members of the scheme. These payments are made through the Local Government Pension Scheme (LGPS) and are included in the accounting for pensions under FRS 17.

Other Council employees may join the LGPS which locally is the Highland Council Pension Fund administered by Highland Council. In accounting for this scheme the Council is required to fully comply with FRS 17. Note 37 to the Core Statements details the income and expenditure charged under FRS 17, based on estimates by the Fund's Actuary, and Note 36 to the Core Statements shows that the Council has a net pension liability at 31 March 2007 of £80.331m based on the Actuary's estimates. The liability is accounted for within the Balance Sheet and through the Pension Reserve.

Statute imposes an obligation on local authorities to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Highland Council has additional liabilities arising from the pension deficits of Highland and Islands Fire Board, Northern Joint Police Board, Highland and Western Isles Valuation Joint Board and Highlands and Islands Transport Partnership. Further information regarding these deficits can be found in the Statement of Accounts for the relevant bodies.

Alan Geddes, Director of Finance
28 June 2007

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ACCOUNTING POLICIES

1. General

The Statement of Accounts (the Accounts) for the Highland Council, the Common Good Funds and Trust Funds and the Pension Fund have been prepared, as far as is practicable, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP), and the Best Value Accounting Code of Practice (BVACOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and any overriding legislative requirements. In accordance with Financial Reporting Standard 18 all policies are judged against the objectives of relevance, reliability, comparability and understandability. The Accounts have been prepared using the historical cost convention model modified for fixed asset revaluations to reflect the going concern status of the Highland Council.

2. Changes to Accounting Policies

2.1 2006 SORP changes

The following changes in accounting policies have been necessary in order to comply with changes to the 2006 SORP.

Capital Financing Charges

The cessation of notional interest results in capital financing charges for the use of assets no longer being chargeable to the Income and Expenditure account. This change has had no impact on the balances of the Council, as it has also resulted in the Asset Management Revenue Account, which matched the reversal of capital charges with depreciation and external interest also being no longer required.

To ensure continued comparability notional interest continues to be included in the notes to the statutory trading operations.

Gains and Losses on sale of assets

Gains and losses on the sale of assets are now recognised in the Income and Expenditure account. To comply with proper practise on the use of capital receipts it is reversed out in the Statement of Movement on the General Fund Balance and therefore does not have an impact on the financial results of the Council.

2.2 Insurance Fund

During 2006/07 financial year an insurance fund was created for The Council. This fund has been established with £0.250m of the Council's balances to meet uninsured losses. It is anticipated that the operation of this fund in preference to fuller commercial insurance arrangements will accrue benefits to the Council of approximately £0.500m which will be passed to the insurance fund.

2.3 Investment Income

The net surplus to the Council from the operation of its industrial estates is now classified in the Income and Expenditure account as investment income. This complies with the SORP definition of investment income and has no impact on the Council's year end financial position.

ACCOUNTING POLICIES

3. Revenue and Capital Transactions

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and this results in a significant balance then they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are recorded as creditors on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

4. Fixed Assets

Fixed assets are split in the Balance Sheet between Operational and Non-Operational.

Operational assets are further classified into: Council Dwellings; Other Land and Buildings; Vehicles, Plant, Furniture and Equipment; Infrastructure Assets; and Community Assets.

Council Dwellings are valued at net realisable value using the House Type Comparative method. Other Land and Buildings are valued at the lower of net current replacement cost or net replacement value in existing use. Vehicles, Plant, Furniture and Equipment, Infrastructure and Community Assets are included at historical cost where identifiable, net of depreciation.

Non-operational assets are further classified into: Investment Property, Assets under Development and Surplus Assets awaiting disposal.

Non Operational assets are included at the lower of net current replacement cost or net realisable value.

Classification as a fixed asset is subject to a de minimus level of £0.006m for Vehicles, Plant & Machinery, and £0.020m for all other assets.

5. Revaluation of Fixed Assets

John Clarke (MRICS), Head of Property, Property and Architectural Services, carried out a number of revaluations falling due within the five year rolling programme. The effective date of the revaluations is the 1 April 2006. In addition, certain Other Land and Buildings assets, where capital projects had been completed during the year, were revalued as at the date of project completion.

Specific details regarding the valuation of all categories of fixed assets are shown in Note 18 to the Core Statements on page 40.

ACCOUNTING POLICIES

6. Depreciation and Impairment

Land is not depreciated unless it is subject to depletion.

Operational buildings, infrastructure, plant & equipment and non-operational assets have been depreciated on a straight line basis over the useful life of the asset. Vehicles have been depreciated using the reducing balance method on the opening written down value.

Council Dwellings have been depreciated on an annuity basis over the life of the asset.

No depreciation is applied in the year of purchase. A full year's depreciation is applied in year of disposal.

The Council has not suffered a reduction in the value of any assets as a result of impairment during 2006/07.

7. Charges to Revenue and Redemption of Debt

All General Fund Services are subject to depreciation on all assets valued at current cost. The charge made to the HRA for Council Dwellings and other HRA owned assets equates to the Loans Fund principal, interest and expenses. Depreciation on non operational assets is charged to Non Distributed Costs in the Income And Expenditure Account except for that relating to industrial estates which is included net of income in investment income and interest in the Income and Expenditure Account.

Loans fund debt is redeemed on an annuity basis.

8. Capital Receipts

The Council's policy on the treatment of Capital Receipts is:

- (i) capital receipts, however generated (with the exception of Housing Revenue Account receipts) will be treated as a corporate resource to be allocated to projects according to agreed corporate criteria; and
- (ii) a capital receipt which formed part of the funding package for a particular project should be so applied, subject to assurance that this represented the most cost effective use of the asset.

Any reasonable requests to earmark particular receipts will be considered on their respective merits and on the basis that, if only a proportion of the receipt is required to meet the cost of the project, any residual amount will be treated as in point (i) above.

9. Valuation of Stock and Investments

Stocks and investments are included in the Balance Sheet at the lower of cost or net realisable value, with the exception of TEC Services stock amounting to £3.238m (£2.613m 2005/06), which is included at weighted average value.

Income on investments is credited to revenue in the year that it is declared.

The value of all investments in subsidiary companies is disclosed in the Balance Sheet.

ACCOUNTING POLICIES

10. Central Support Services

Central Support Service costs such as the Chief Executive's Office, Corporate Services, Finance Services, Information Systems Service and the Accommodation properties are allocated to front-line services after the deduction of corporate management, democratic core and non distributable costs in accordance with the BVACOP. Some residual balances remain on Central Support Service Accounts after this allocation, but these are not material and are contained within the Central Services to the Public heading in the Income and Expenditure Account.

The basis of allocation varies for each Service but includes number of transactions, floor area occupied, budgets and staff numbers.

11. Provisions

Provision has been made in respect of doubtful debts on Community Charge, Council Tax, Non-domestic Rates, Sundry Income and Housing Rents.

Following the introduction of the Insurance Fund a provision has been included in the accounts for the potential cost of unsettled claims raised during financial year ending 31 March 2007.

Provision has been made in 2006/07 for the potential impact on the financial year of: Equal Pay settlements on the Council; the potential cost of implementing a Single Status agreement and the potential cost of the management restructuring which was initiated in March 2007.

12. Revenue and Capital Grants

Grants which are outstanding at the year end have been accrued. Revenue grants including the Public Sector Housing Grant are matched to the expenditure to which they relate. Capital grants are credited to the Capital Grants Deferred Account and the balance is written off over the appropriate asset life.

13. Strategy for Balances

(a) General Fund

In accordance with CIPFA Guidance "Reserves and Balances in a Local Authority" the Council has determined that General Fund balances should be held for contingencies and for specific initiatives. A sum equivalent to 3% of the revenue budget, approximately £14m., will be retained for contingent purposes while sums in excess of this figure will be earmarked to meet, in full or part, future projects or commitments. In 2006/07 investment in energy efficiency; funding of budget pressures in the Social Work budget and contribution to H2007 were some of the main specific commitments identified.

(b) Housing Revenue Account

The Council decides annually the application of HRA balances to housing activities. The overall aim, now largely achieved, is to eliminate the use of balances to cover operational costs and move to using balances for investment purposes only.

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ACCOUNTING POLICIES

14. Reserves

(a) Fixed Asset Restatement Account

This account reflects the difference between the net capital expenditure and the asset valuations determined for capital accounting purposes together with the surplus or deficit arising from revaluation and the net book value of asset disposals. This account is not a cash account and is not available for financing capital expenditure.

(b) Capital Financing Account

This account reflects the difference between the repayment of debt and the depreciation charge together with all the capital financing transactions, e.g. capital financed from current revenue (CFCR) and capital receipts applied. This account is not a cash account and is not available for financing capital expenditure.

(c) Usable Capital Receipts Reserve

This reserve represents the capital receipts available to finance capital expenditure in future years.

(d) Renewal and Repair Funds

The Council operates a number of Renewal and Repair Funds for the following purposes:

- to fund Grounds Maintenance work undertaken on private land adopted by the Council;
- to fund purchases of new museum pieces for Inverness Museum;
- to fund repairs to artificial pitch at Tain Royal Academy Community Complex (TRACC).

(e) Capital Fund

A capital fund operates to allow the financing of capital expenditure without recourse to borrowing. It may also be used to finance repayment of principal to the loans fund.

During 2006/07, the Council received contributions from developers in accordance with planning gain agreements under Section 75 of the Town and Country Planning (Scotland) Act 1997. These have been added to the Capital Fund and will be used in accordance with the conditions of each individual agreement e.g. for the provision of play areas and environmental and road infrastructure improvements.

An ear-marked balance within the Capital Fund exists for “Land Banking” initiative relating to the provision of affordable social housing throughout the Highlands.

Further details of these Funds are contained in Note 31 to the Core Statements.

ACCOUNTING POLICIES

15. Pensions

(a) Teachers

The Scottish Teachers' Superannuation Scheme (STSS) is an unfunded defined benefit scheme administered by the Scottish Executive. The STSS is exempt from FRS 17 as the assets and liabilities of the scheme cannot be reliably attributed to participating authorities. Therefore the Income and Expenditure Account reflects only the cash payments made by the Council to the Scheme during the year. The exception to this are any unfunded pension enhancements made to scheme members throughout the year, these payments are administered by the LGPS and are included in the accounting for FRS 17.

(b) Other Employees

Other employees are eligible to join the Local Government Pension Scheme (LGPS). The accounting for this fund is prescribed by Financial Reporting Standard (FRS) 17 "Retirement Benefits".

(c) Financial Reporting Standard 17 "Retirement Benefits" (FRS 17)

FRS 17 requires that the Accounts reflect a fair value of the assets and liabilities underlying the employer's obligations relating to retirement benefits and that the true cost of these obligations is recognised.

The Highland Council Pension Fund's Actuary was commissioned to undertake an assessment of the cost, income, assets and liabilities of the Fund attributable to Highland Council as at 31 March 2006. The Actuary's assessment of the true cost of retirement benefits earned by employees during the year has been charged against Services in the Income and Expenditure Account. The pension assets and liabilities of the Council are reflected in the Balance Sheet. Under the Local Government Pension Reserve Fund (Scotland) Regulations 2003, the Council has established a Pensions Reserve to account for its long term net pension liability. The discount rate employed for 2005/06 by the actuaries is the yield available on long-dated quality corporate bonds (as measured by the yield on iBoxx Sterling Corporate's Index, AA over 15 years) as at 31 March 2006.

16. Leases

Operating lease payments are charged to revenue in the year to which they relate, no value is carried in the Balance Sheet relating to the leased asset.

17. Covenants / Deferred Purchase Schemes

The Council does not operate any covenants or other deferred purchase schemes.

ACCOUNTING POLICIES

18. PFI/PPP Contracts

The Council fully complies with FRS 5 "Reporting the Substance of Transactions" and Treasury Guidance in accounting for both its PFI/PPP contracts, a PFI contract for the supply of information technology (IT) services and a PPP contract for the provision of 4 schools.

The Income and Expenditure Account includes the annual unitary charge for these contracts. In relation to the schools PPP the unitary charge comprises an element for the use of the school and an amount relating to the capital value of the asset which will transfer to the Council at the end of the contract. The unitary charge for the IT PFI contract only comprises a charge for the provision of the service; there is no capital element as the contract terms provide for the infrastructure to be returned to the Council at a fair market value.

There are no fixed assets shown on the Balance Sheet in relation to PFI/PPP contracts but a long term debtor is included to reflect the fact that the Council will acquire the schools for nil consideration at the end of the 25 year term of the PPP contract. At the commencement of the contract the depreciated net replacement cost of the schools, which will transfer to the Council at the end of the contract, was calculated. In accordance with the arrangements for accounting for PPP this value is recognised in the Balance Sheet over the life of the contract by a charge being made to the Income and Expenditure Account, matched by an appropriation to the Capital Financing Account. The charge will be added annually to long term debtors over the life of the contract. At the end of the contract the total accumulated value in long term debtors relating to PPP will be transferred to the Council's Fixed Assets.

19. Foreign Currency Transactions

Income and expenditure arising from transactions in foreign currency are converted to £ sterling at the exchange rate in operation on the date the transaction occurred. Where a contracted or agreed rate exists, this is used for conversion to £ sterling.

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INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR 2006/07

| 2005/06 Net Expenditure (Restated) £'000 | Note | 2006/07 Gross Expenditure £'000 | 2006/07 Gross Income £'000 | 2006/07 Net Expenditure £'000 |
|--|------|--|-------------------------------------|--|
| (9,901) | | 32,895 | (42,695) | (9,800) |
| 21,453 | | 32,333 | (8,619) | 23,714 |
| 188,825 | | 217,607 | (35,063) | 182,544 |
| 26,535 | | 34,163 | (4,872) | 29,291 |
| (2,398) | | 60,021 | (57,788) | 2,233 |
| 4,497 | | 13,347 | (9,087) | 4,260 |
| 32,777 | | 64,958 | (34,613) | 30,345 |
| 86,103 | | 111,575 | (23,666) | 87,909 |
| 10,463 | | 60,032 | (47,132) | 12,900 |
| | | <u>Joint Board Requisitions</u> | | |
| 20,694 | 2 | 21,960 | | 21,960 |
| 17,831 | 2 | 15,392 | | 15,392 |
| | 2 | | | |
| 1,937 | | 2,119 | | 2,119 |
| | 2 | | | |
| - | | 63 | | 63 |
| 10,160 | 4 | 11,239 | (304) | 10,935 |
| 3,320 | 5 | (3,614) | | (3,614) |
| 412,296 | | 674,090 | (263,839) | 410,251 |
| | | | | |
| 2,465 | | | | 273 |
| (526) | 10 | | | (111) |
| 31,975 | | | | 31,996 |
| (2,657) | | | | (2,925) |
| 1,699 | 37 | | | (3,669) |
| 445,252 | | | | 435,815 |
| | | | | |
| (95,411) | | | | (100,804) |
| (266,751) | | | | (279,695) |
| (77,964) | | | | (77,938) |
| | | | | |
| 5,126 | | | | (22,622) |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| 2005/06 Net Expenditure £'000 | | 2006/07 Net Expenditure £'000 |
|--|---|--|
| | NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT | |
| 5,126 | | (22,622) |
| | Net additional amount required by statute and non-statutory proper practices to be debited and credited to the General Fund Balance for the year. (Note 17) | |
| (1,726) | | 13,491 |
| 3,400 | MOVEMENT IN THE GENERAL FUND FOR THE YEAR | (9,131) |
| (24,402) | General Fund Balance brought forward | (21,002) |
| <u>(21,002)</u> | General Fund Balance carried forward | <u>(30,133)</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| 2005/06 Net £'000 | | 2006/07 Net £'000 |
|-------------------------|---|-------------------------|
| | NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT | |
| 5,126 | | (22,622) |
| (327,778) | Surplus arising on the revaluation of fixed assets | 6,188 |
| (47,112) | Actuarial (gains)/losses on pension fund assets and liabilities | (41,418) |
| (5,617) | Net movements not attributable to the General Fund | 165 |
| <u>(375,382)</u> | Total recognised gains for the year | <u>(57,687)</u> |

BALANCE SHEET AS AT 31 MARCH 2007

| 31 March 2006 (Restated) £'000 | Note | 31 March 2007 £'000 | £'000 |
|---|--|------------------------|------------------|
| TANGIBLE FIXED ASSETS | | | |
| Operational Assets | | | |
| 522,201 | Council Dwellings | 510,074 | |
| 604,570 | Other Land and Buildings | 616,783 | |
| 8,109 | Vehicles, Plant, Furniture and Equipment | 9,568 | |
| 208,363 | Infrastructure Assets | 222,374 | |
| 872 | Community Assets | 919 | |
| 1,344,115 | Total Operational Assets | | 1,359,718 |
| Non-Operational Assets | | | |
| 22,637 | Investment properties | 22,637 | |
| 2,575 | Assets Under Development | 5,108 | |
| 4,165 | Surplus Assets Awaiting Disposal | 4,012 | |
| 29,377 | Total Non-Operational Assets | | 31,757 |
| 1,373,492 | Total Tangible Fixed Assets | 18 | 1,391,475 |
| Intangible Assets | | | |
| 2,330 | Long-term Investments | | 2,395 |
| 44,650 | Long-term Debtors (net of provisions) | 27 | 43,059 |
| 47,594 | Deferred Premiums on early repayment of debts | | 45,509 |
| 1,468,065 | Total Assets | | 1,482,438 |
| Current Assets | | | |
| 3,307 | Stock and Work in Progress | 3,903 | |
| 87,259 | Sundry Debtors | 91,210 | |
| (39,632) | Less Provisions | (40,864) | |
| 50,935 | | | 54,249 |
| 9,950 | Temporary Investments (for less than 1 year) | | 59,401 |
| 106 | Cash | | 123 |
| 60,990 | | | 113,773 |
| Less Current Liabilities | | | |
| 23,311 | Borrowing repayable (in less than 1 year) | | 24,558 |
| 47,173 | Sundry Creditors | | 80,517 |
| 8,293 | Provisions | 29 | 5,740 |
| 14,306 | Bank Overdraft | | 3,889 |
| 32,092 | | | 114,704 |
| 1,435,973 | Total Assets less Current Liabilities | | (931) |
| | | | 1,481,507 |

BALANCE SHEET AS AT 31 MARCH 2007

| (Restated) £'000 | Note | £'000 | £'000 |
|---------------------|--|-------|------------------|
| 1,435,973 | Total Assets less Current Liabilities | | 1,481,507 |
| | Less: | | |
| | Borrowing Repayable within a period in excess of 12 months | 28 | 579,529 |
| 557,695 | | | 34,519 |
| 36,451 | Government Grants Deferred | | 39,682 |
| 24,697 | Capital Contributions Deferred | | 1,337 |
| 1,417 | Deferred discounts on early repayment of debt | | 80,331 |
| 127,290 | Defined Benefit Pension Scheme Liability | 36 | 735,398 |
| 747,550 | | | 746,109 |
| 688,423 | TOTAL ASSETS LESS LIABILITIES | | 746,109 |
| | FINANCED BY: | 31 | |
| 610,420 | Fixed Asset Restatement Account | | 589,810 |
| 149,332 | Capital Financing Account | | 169,614 |
| 6,908 | Usable Capital Receipts Reserve | | 5,396 |
| (127,290) | Pension Reserves | | (80,331) |
| | | | 684,489 |
| | <u>Other Reserves</u> | | |
| 1,278 | Renewal and Repair Fund | | 1,285 |
| 17,363 | Capital Fund | | 20,769 |
| - | Insurance Fund | | 540 |
| | | | 22,594 |
| | <u>Revenue Account Balances</u> | | |
| 21,002 | General Fund | | 30,133 |
| 9,410 | Housing Revenue Account | | 8,893 |
| 30,412 | | | 39,026 |
| 688,423 | TOTAL NET WORTH | 30 | 746,109 |

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Alan Geddes, Director of Finance
28 June 2007

CASH FLOW STATEMENT

For the year ended 31 March 2007

| 2005/06 (Restated) £'000 | Note | 2006/07 £'000 £'000 | |
|--|------|-----------------------------|-----------------|
| REVENUE ACTIVITIES | | | |
| Cash Outflows | | | |
| 264,680 | | 327,249 | |
| 339,397 | | 262,043 | |
| 76,075 | | 86,019 | |
| 12,135 | | 23,592 | |
| 692,287 | | 698,903 | |
| Cash Inflows | | | |
| (19,015) | | (25,015) | |
| (103,180) | | (114,250) | |
| (75,114) | | (84,462) | |
| (78,428) | | (78,394) | |
| (266,751) | | (279,695) | |
| (22,587) | | (23,283) | |
| (35,771) | 41 | (26,312) | |
| (76,027) | | (77,100) | |
| (64,844) | | (72,701) | |
| (741,717) | | (781,212) | |
| (49,430) | | | (82,309) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Cash Outflows | | | |
| 30,294 | | 21,150 | |
| 30,294 | | 21,150 | |
| Cash Inflows | | | |
| (2,257) | | (3,041) | |
| (2,257) | | (3,041) | |
| 28,037 | | | 18,109 |

CASH FLOW STATEMENT

For the year ended 31 March 2007

| 2005/06 (Restated) £'000 | Note | 2006/07 £'000 | £'000 |
|---------------------------------------|--|------------------|-----------------|
| CAPITAL ACTIVITIES | | | |
| Cash Outflows | | | |
| 58,324 | Purchase of Fixed Assets | 62,418 | |
| 58,324 | Total Outflows | 62,418 | |
| Cash Inflows | | | |
| (18,482) | Sale of Fixed Assets | (14,151) | |
| (14,364) | Capital Grants Received | (4,836) | |
| (13,465) | Other Capital Cash Receipts | (10,804) | |
| (46,311) | Total Inflows | (29,791) | |
| 12,013 | Net Cash Outflow / (Inflow) on Capital Activities | | 32,627 |
| (9,380) | Net Cash Outflow / (Inflow) before Financing | | (31,573) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| 610 | Net Increase / (decrease) in short term deposits | 49,452 | |
| 5,040 | Net Increase/(decrease) in other liquid resources | (3,226) | |
| 5,650 | | | 46,226 |
| FINANCING | | | |
| Cash Outflows | | | |
| 234,217 | Repayments of amounts borrowed | 353,939 | |
| (1,776) | Repayment of Premiums and Discounts | (2,006) | |
| 232,441 | Total Outflows | 351,933 | |
| Cash Inflows | | | |
| (23,216) | New loans raised | (213,249) | |
| (210,184) | New short term loans raised | (163,771) | |
| (233,400) | Total Inflows | (377,020) | |
| (959) | Net Cash Outflow / (Inflow) from Financing | | (25,087) |
| (4,689) | Net (Increase)/ Decrease in cash | | (10,434) |
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NOTES TO THE CORE STATEMENTS

1. General

The Best Value Accounting Code of Practice (BVACOP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA), sets out the standard classification of Services for the Income and Expenditure Account. The BVACOP standard classification seeks to ensure consistency of presentation across all Scottish Local Authorities to allow comparisons between authorities to be made.

The Income and Expenditure Account (I & E) is set out, as far as is practicable, in accordance with the BVACOP Service Expenditure Analysis.

To allow comparison with the Council's internal Service analysis and the Council's budgeted expenditure for the year, the Income and Expenditure Account has been re-presented in an alternative format within the Explanatory Foreword.

2. Police, Fire and Valuation Joint Boards and Highlands and Islands Transport Partnership

The Highland Council is a constituent authority of the Northern Joint Police Board; Highland and Islands Fire Board; Highland and Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership. The net expenditure shown in the Income and Expenditure Account represents the Council's requisition or proportion of the costs of these Boards.

The four Joint Boards are deemed to be associates of the Highland Council, and are included on this basis in the Group Accounts on pages 89-98.

Further information on the Joint Boards can be found in each Board's Statement of Accounts which is available upon request from the Director of Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

3. Extraordinary Items

The Council has no extraordinary items to disclose for the year to 31 March 2007.

4. Corporate and Democratic Core

Corporate and Democratic Core (CDC) comprises Democratic Representation and Management (DRM) and Corporate Management (CM). DRM relates to corporate policy making and all other elected member based activities. CM relates to those activities and costs of the general running of the authority.

| 2005/06 | | 2006/07 | 2006/07 | 2006/07 |
|---------------|--|---------------|------------|---------------|
| Net | | Expenditure | Income | Net |
| £'000 | | £'000 | £'000 | £'000 |
| 9,050 | Democratic Representation and Management | 9,839 | | 9,839 |
| 1,111 | Corporate Management | 1,400 | 304 | 1,096 |
| 10,161 | Total | 11,239 | 304 | 10,935 |

NOTES TO THE CORE STATEMENTS

5. Non Distributed Costs

Non-distributed costs are excluded from the accounts of individual Services and comprise:

- (a) The whole amount of any past service contribution to meet a pension fund deficit, however arising.
- (b) The whole amount of any reduction in contribution to apply a pension fund surplus.
- (c) Charges (however calculated) for added years and early retirement.
- (d) The costs associated with unused shares of IT facilities.
- (e) The costs of shares of other long-term unused but unrealisable assets.
- (f) Depreciation for Non-Operational properties.

6. Publicity

Section 5 of the Local Government Act 1986 requires details of the net expenditure incurred on publicity during 2006/2007 to be disclosed.

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|-------------------------|------------------|
| 601 | Recruitment Advertising | 504 |
| 682 | Other Advertising | 698 |
| 239 | Other Publicity | 261 |
| <u>1,522</u> | Total Publicity | <u>1,463</u> |

7. Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2006/07 the Council provided administration, professional and technical services to the following bodies. In all cases the value of the services provided is considered insignificant in comparison to the Council's net operating expenditure as detailed below.

| 2005/06 | | | 2006/07 | | |
|----------------------|-----------------|-----------------------------|----------------------|-----------------|------|
| Expenditure £'000 | Income £'000 | | Expenditure £'000 | Income £'000 | % |
| 287 | (287) | Northern Joint Police Board | 275 | (275) | 0.06 |
| | | Highland and Islands Fire | | | |
| 188 | (188) | Board | 164 | (164) | 0.04 |
| | | Highland and Western Isles | | | |
| 77 | (77) | Valuation Joint Board | 84 | (84) | 0.02 |
| | | Highland and Islands | | | |
| - | - | Transport Partnership | 25 | (25) | 0.01 |
| 520 | (520) | Scottish Water | 541 | (541) | 0.12 |

NOTES TO THE CORE STATEMENTS

8. Members Allowances and Expenses

The allowances and expenses paid to and on behalf of members in 2006/07 were as follows:

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|----------------------------------|------------------|
| 586 | Basic Salary | 582 |
| 380 | Special Responsibility Allowance | 389 |
| 424 | Travel and Subsistence | 403 |
| 112 | All Other expenses | 104 |
| 1,502 | Total | 1,478 |

9. Employee Remuneration

In 2006/07 the number of employees receiving remuneration above £50,000, including redundancy and retirement pay where appropriate, are as follows:

| 2005/06 £'000 | Remuneration Bandings | 2006/07 £'000 |
|------------------|-----------------------|------------------|
| 50 | £50,000 to £59,999 | 52 |
| 14 | £60,000 to £69,999 | 17 |
| 1 | £70,000 to £79,999 | 1 |
| 0 | £80,000 to £89,999 | 0 |
| 7 | £90,000 to £99,999 | 7 |
| 1 | £100,000 to £109,999 | 1 |
| 0 | £110,000 to £119,999 | 0 |
| 1 | £120,000 to £129,999 | 1 |

2005/06 figures have been restated to reflect a change in the 2006 SORP definition of remuneration.

10. Significant Trading Operations

Financial year 2006/07 is the fourth year in which the Council has been required to maintain statutory trading accounts for 'significant trading operations' in accordance with the Local Government (Scotland) Act 2003 (Section 10). The Council must demonstrate that each of its "significant trading operations" has achieved, at least, a cumulative breakeven position in the three years to 31 March 2007.

The Council has 7 Significant Trading Operations as described below which operate in a commercial environment and generate income from other parts of the Council and/or other organisations. All Significant Trading Operations achieved the financial objective to break even over the cumulative three year period to 31 March 2007.

NOTES TO THE CORE STATEMENTS

(i) Roads and Community Works

An amalgamation of Roads, Refuse Collection, Street Cleaning, Public Conveniences and Grounds Maintenance to enable cross working of the workforce on the various activities. The financial target over three years is to make a small surplus

(ii) Fishery Piers and Harbours

Harbours trade commercially with vessels from the home and foreign fishing fleet. Transport piers are used by commercial ferry operators who pay dues for the use of the facilities. The target is at least to break even after depreciation.

(iii) Building Maintenance

Provision of building repairs to Housing Services and other Council Services. Income is generated by a combination of schedule of rates and charging an hourly rate to recover costs. The target is to make the surplus determined by the Council when the Revenue Budget is set, which was £0.444m in 2006/07.

(iv) Catering

Provision of catering, predominantly to schools, but also to other Council Services. Income is based on a cost recovery basis, with a target to make a small surplus.

(v) Building Cleaning

Provision of building cleaning to all Council Services. Income is based on a cost recovery basis with a target to make a small surplus.

(vi) Vehicle Maintenance

Provision of repairs and maintenance to the Council's fleet of vehicles. Income is generated through a job card system to recover costs along with a small profit element. The target is to make a small surplus.

(vii) Project Design

The unit is largely responsible for the design and management of capital structural work for Transport, Environmental and Community Services. It also provides this service to the Scottish Executive. Income is generated by a time recording system based on recovery costs. The target is to make a small surplus.

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NOTES TO THE CORE STATEMENTS

Summary of Financial Results

A summary of the financial results of the Trading Operations is detailed below:

| 2004/05 Surplus/ (Deficit) £'000 | 2005/06 Surplus/ (Deficit) £'000 | | Turnover £'000 | 2006/07 Expenditure £'000 | Surplus/ (Deficit) £'000 | Cumulative Surplus/ (Deficit) £'000 |
|---|---|--|-------------------|---------------------------------|--------------------------------|--|
| | | Roads and | | | | |
| 220 | 907 | Community Works | 40,648 | 39,061 | 1,587 | 2,714 |
| | | Fishery Piers and | | | | |
| 146 | 500 | Harbours | 14,988 | 14,933 | 55 | 701 |
| | | Building | | | | |
| 408 | 397 | Maintenance | 11,801 | 11,445 | 356 | 1,161 |
| (23) | 35 | Catering | 7,416 | 7,428 | (12) | - |
| (12) | 81 | Building Cleaning | 4,895 | 4,922 | (27) | 42 |
| 29 | 141 | Vehicle Maintenance | 4,091 | 3,819 | 272 | 442 |
| (40) | 71 | Project Design | 4,977 | 4,545 | 432 | 463 |
| 728 | 2,132 | Surplus/(Deficit) on Trading Operations | 88,816 | 86,153 | 2,663 | 5,523 |

Reconciliation to Income and Expenditure Account

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|--|------------------|
| 2,132 | Surplus/(Deficit) on Trading Operations | 2,663 |
| (1,552) | Less internal surplus included in respective Services' net expenditure | (2,594) |
| 11 | Adjust for notional interest | - |
| - | Adjust for loans fund interest | 84 |
| (65) | Less IORB included on Interest on Revenue Balances line | (42) |
| 526 | Surplus on Trading operations in I & E Account | 111 |

11. Community Care Partnership Schemes

During 2006/07, under the Community Care and Health (Scotland) Act 2002, the Highland Council continued to have in place a signed Extended Local Partnership Agreement, known as The Highland Community Care Partnership Agreement, with NHS Highland as their partner body.

The general objective of the Partnership is the achievement of a better quality of life for the people of the Highlands, including empowerment, social inclusion, and improved health, through ease of access to an increasingly integrated health and social care service.

During 2006/07, the Partnership included services to older people, people suffering a physical disability, people with learning disabilities, and people requiring mental health services.

The Partnership had a budget, covering all the above client groupings that amounted to approximately £205m during 2006/07. The budgets are currently aligned, which means that each Partner organisation

NOTES TO THE CORE STATEMENTS

holds their own element of the budget and records the expenditure and income that relates to the part of the service for which they are responsible. The Partners are committed to moving towards pooled budgets where appropriate opportunities arise.

The Highland Council contributed a budget of approximately £68.7m in respect of the specific services, and this can be analysed as follows:

| 2005/06 | | 2006/07 |
|---------|-----------------------------------|-------------|
| £m | | £m |
| 41.2 | Older People | 44.6 |
| 13.9 | People with Learning Disability | 13.6 |
| 4.2 | People with Mental Illness | 4.7 |
| 5.1 | People with a Physical Disability | 5.2 |
| 0.6 | People Misusing Drugs/Alcohol | 0.6 |

These budgets cover a range of services from the assessment of needs and the Council's provision of day and home care to the commissioning and purchase of care home places from private and voluntary sector organisations.

12. Related Parties

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

(a) Central Government

The Scottish Executive has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits). An analysis of specific Government Grants received during the year are set out in Note 41 to the Core Statement on page 56.

NOTES TO THE CORE STATEMENTS

(b) Pension Fund

The Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and other scheduled and admitted bodies which are eligible to join.

During 2006/07, the Pension Fund had a closing deposit with the Council's loans fund of £6.805m (2005/06 £7.463m). The Council paid the Pension Fund interest of £0.228m (2005/06 £0.214m) on the average deposits throughout the year. The Council charged the Pension Fund £0.709m (2005/06 £0.671m) for expenses incurred in administering the Pension Fund.

(c) Subsidiaries and other related Companies

Highland Council has four subsidiary companies as detailed below. Copies of the Accounts can be obtained from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX. These related companies have not been consolidated in the Group Accounts as they are considered immaterial.

(d) Loch Ness and Highland Horizons Limited (LNHH)

LNHH are the owners of the Aquadome, Inverness which is leased to Caledonia Community Leisure Limited, it is a wholly owned subsidiary of Highland Council with a share-holding of £1.215m. A summary of the latest (audited) results of LNHH is provided below:

| Financial Year End | Net Assets £'000 | Profit/(loss) before taxation £'000 | Profit/(loss) After taxation £'000 |
|-------------------------------|-----------------------------|--|---|
| 31 March 2005 | 836 | (69) | (69) |
| 31 March 2006 | 709 | (127) | (127) |

(e) Highland Prospect Limited (HPL)

At 1 April 2005 HPL became a wholly owned subsidiary of Highland Opportunity Limited (HOL). Consequently the most recent (audited) results are incorporated in the HOL results reported below.

(f) Highland Opportunity Limited (HOL)

HOL provides financial assistance to businesses to protect and expand employment, it is a company limited by guarantee with the Council's liability limited to £100. From 1 April 2005 HOL acquired HPL as a subsidiary. During 2006/07 Highland Prospect repaid a £0.220m loan to Highland Council. A summary of the latest available (audited) results of the Company is provided overleaf:

NOTES TO THE CORE STATEMENTS

| Financial Year End | Net Assets | Profit/(loss) before taxation | Profit/(loss) After taxation |
|--------------------|------------|----------------------------------|---------------------------------|
| | £'000 | £'000 | £'000 |
| 31 March 2005 | 1,367 | 25 | 25 |
| 31 March 2006 | 1,507 | (94) | (94) |

(g) Highland 2007 (H2007)

H2007 was incorporated on 8th June 2005. It is a charitable company limited by guarantee with the liability of the Council limited to £1. The company was set up to promote cultural activities in the Highlands. During 2006/07 Highland Council contributed £0.453m to the company towards the cost of running events. A summary of the latest (audited) results of the Company is provided below:

| Financial Year End | Net Assets | Profit/(loss) before taxation | Profit/(loss) After taxation |
|-----------------------|------------|----------------------------------|---------------------------------|
| | £'000 | £'000 | £'000 |
| 31 March 2006 | 511 | 0 | 0 |

13. Fees Payable to Audit Scotland

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the "Code of Audit Practice" are made up as follows:

| 2005/06 | | 2006/07 |
|------------|--------------|------------|
| £'000 | | £'000 |
| 294 | Audit Fee | 303 |
| 161 | Fixed Charge | 170 |
| 455 | Total | 473 |

£0.020m (2005/06 –nil) was payable to Audit Scotland in respect of audits of ERDF grant claims and Whole of Government Accounts returns.

14. Long Term Contracts and PFI Transactions

(a) The Council signed a PFI contract with International Computers Limited (ICL), now Fujitsu Services Ltd, in July 1998 to provide Information Technology Services for a period of ten years up to June 2008. The basic contract element of the annual service charge in 2006/07 was £6.752m (£6.831m). Council services incurred direct charges totalling £4.554m (£3.734m) for specific enhancements over and above the basic contract. In total the annual service charge amounted to £11.306m (£10.565m) in 2006/07. The total amount payable under the contract from 1 April 2007 until 30 June 2008 is £14.308m at current prices. The Council receives Level Playing Field Support from the Scottish Executive towards these costs. This support is estimated to amount to £1.75m over the remaining years of the contract.

NOTES TO THE CORE STATEMENTS

(b) The Council signed a PFI contract with Community Schools (Highlands) Ltd, a consortium comprised of the M J Gleeson Group plc and Royal Bank Project Investments Limited, on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The original members of the consortium sold their shares in Community Schools (Highlands) Ltd to Henderson Private Capital Limited who are now the owners of the project. The annual unitary charge for this contract in 2006/07 was £3.065m (£3.025m). This charge covers the cost of the use of the school plus an amount relating to the transfer of the asset to the Council at the end of the contract. A long term debtor is being built up in the Balance Sheet over the period of the contract to reflect the fact that the Council will acquire the schools for nil consideration at the end of the 25 year PPP contract.

The total amount payable under the contract from April 2007 until July 2027 amounts to £63.9m at current prices. The Council receives Level Playing Field Support from the Scottish Executive towards these costs. This support is estimated to amount to £31.5m, at current prices over the remaining term of the contract.

(c) The Council signed a 30 year contract with Alpha Schools (Highland) Ltd on the 30 March 2006 for the provision of 11 schools. These schools will be available on a phased basis with the first school being available in late March 2007. There is no Unitary Charge cost associated with this contract included in the 2006/07 Accounts.

15. Financial Reporting and the Euro

- (a) There are no commitments as at 31 March 2007 in respect of costs to be incurred.
- (b) The Council's Financial Information Service uses a system which is euro compliant. The cost of being euro compliant is included within the overall cost of the service and it is therefore not possible to separately identify this cost. At this time, no further expenditure is anticipated.
- (c) No expenditure regarded as exceptional in accordance with FRS 3 was incurred in the year.

16. Significance of the Statement of Movement on the General Fund

The Statement of Movement on the General Fund summarises the differences between the outturn on the Income and Expenditure Account, which properly includes elements not chargeable against constituent authorities and the movement on the General Fund which records the income and expenditure taken into account in determining the Council's budget requirement and in turn its council tax for the year.

The balance on the Statement of Movement on the General Fund therefore shows the amount by which the General Fund balance has increased or decreased in the year, along with the opening balance and as a result the balance in the fund at 31 March 2007. The General Fund represents funds available for future use.

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NOTES TO THE CORE STATEMENTS

17. Reconciling items for the Statement of Movement on the General Fund Balance

| 2005/06 £000 | | 2006/07 £000 | £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 for the year | | |
| (24,350) | Depreciation & Impairment of fixed assets | (25,763) | |
| 1,622 | Amortisation | 6,535 | |
| (2,466) | Net Gain on Sale of Fixed assets | (273) | |
| 343 | PPP Long Term Debtor Residual Value | 343 | |
| (22) | PPP FRS 5 rental adjustment | (22) | |
| 17,642 | Net charges made for retirement benefits in accordance with FRS 17 | (14,471) | |
| (7,231) | | | (33,651) |
| | Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year | | |
| 22,621 | Loans Fund Principal repayments | 23,198 | |
| 245 | Capital Expenditure Charged to the General Fund (CFCR) | 1,036 | |
| (22,044) | Employers contributions payable to the Pensions Account and retirement benefits payable direct to pensioners | 20,012 | |
| 822 | | | 44,246 |
| | Transfers to/ (from) the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year. | | |
| (109) | Transfer HRA deficit to Balances | (24) | |
| (758) | Transfer to/(from) HRA Balances | (493) | |
| 7,281 | Transfer to/(from) Capital Fund | 2,945 | |
| (1,731) | Transfer to/(from) Repair & Renewals Fund | (53) | |
| - | Transfer to/(from) Insurance Fund | 521 | |
| 4,683 | | | 2,896 |
| (1,726) | Net additional amount required to be credited to the General Fund balance for the year | | 13,491 |

NOTES TO THE CORE STATEMENTS

18. Movement in Fixed Assets

Movements in operational fixed assets during the year were:

| | Council Dwellings £'000 | Other Land & Buildings £'000 | Vehicles, Plant & Equip- ment £'000 | Infra- structure £'000 | Com- munity Assets £'000 | Non Opera- tional Assets (note iii) £'000 | Total £'000 |
|--|-------------------------------|---------------------------------------|---|------------------------------|-----------------------------------|--|------------------|
| GROSS BOOK VALUE ⁽ⁱ⁾ | | | | | | | |
| At 1 | | | | | | | |
| April 2006 | 564,129 | 623,709 | 14,799 | 239,030 | 872 | 29,559 | 1,472,098 |
| <u>Movements in 2006/07</u> | | | | | | | |
| Additions | 14,000 | 19,286 | 2,970 | 21,325 | 47 | 6,729 | 64,357 |
| Disposals | (11,227) | 0 | (632) | - | - | (3,140) | (14,999) |
| Revaluations | (7,898) | (1,867) | (57) | - | - | 73 | (9,749) |
| Reclassifica- tions | - | 1,236 | - | - | - | (1,236) | 0 |
| At 31 | <hr/> | | | | | | |
| March 2007 | 559,004 | 642,364 | 17,080 | 260,355 | 919 | 31,985 | 1,511,707 |
| DEPRECIATION | | | | | | | |
| At 1 April | | | | | | | |
| 2006 | 41,928 | 19,139 | 6,691 | 30,667 | - | 182 | 98,607 |
| For 2006/07 | 7,002 | 9,872 | 1,390 | 7,315 | - | 186 | 25,765 |
| On Revalued Assets | - | (3,430) | - | - | - | (134) | (3,564) |
| On Disposals | - | - | (570) | - | - | (6) | (576) |
| Reclassifica- tions | - | - | - | - | - | - | - |
| At 31 | <hr/> | | | | | | |
| March 2007 | 48,930 | 25,581 | 7,511 | 37,982 | - | 228 | 120,232 |
| NET BOOK VALUE ⁽ⁱⁱ⁾ | | | | | | | |
| At 31 | | | | | | | |
| March 2007 | 510,074 | 616,783 | 9,569 | 222,373 | 919 | 31,757 | 1,391,475 |
| <hr/> | | | | | | | |
| At 1 April 2006 | 522,201 | 604,570 | 8,109 | 208,363 | 872 | 29,377 | 1,373,492 |

Note (i) Gross Book Value represents the valuation of assets at the last valuation date reduced by disposals since the revaluation.

NOTES TO THE CORE STATEMENTS

Note (ii) Net Book Value represents the closing value of assets as shown in the Consolidated Balance Sheet, i.e. the value after depreciation, impairment, additions, disposals, revaluations and reclassifications.

Note (iii) Movements in Non Operational fixed assets during the year were:

| | Investments £'000 | Assets under Development £'000 | Surplus Assets awaiting disposal £'000 | Total £'000 |
|-----------------------------|----------------------|--------------------------------------|---|----------------|
| GROSS BOOK VALUE | | | | |
| At 1 April 2006 | 22,760 | 2,577 | 4,222 | 29,559 |
| <u>Movements in 2006/07</u> | | | | |
| Additions | - | 6,729 | - | 6,729 |
| Disposals | - | 0 | (3,140) | (3,140) |
| Revaluations | 1,282 | (4,199) | 2,990 | 73 |
| Reclassifications | (1,236) | 0 | - | (1,236) |
| At 31 March 2007 | 22,806 | 5,107 | 4,072 | 31,985 |
| DEPRECIATION | | | | |
| At 1 April 2006 | 123 | 2 | 57 | 182 |
| For 2006/07 | 146 | - | 40 | 186 |
| On Revalued Assets | (103) | - | (31) | (134) |
| On Disposals | - | - | (6) | (6) |
| Reclassifications | - | - | - | - |
| At 31 March 2007 | 166 | 2 | 60 | 228 |
| NET BOOK VALUE | | | | |
| At 31 March 2007 | 22,640 | 5,105 | 4,012 | 31,757 |
| At 1 April 2006 | 22,637 | 2,575 | 4,165 | 29,377 |

NOTES TO THE CORE STATEMENTS

19. Financing Capital Expenditure

The sources of finance for capital expenditure were as follows:

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---------------------------------------|------------------|
| 10,705 | Government Grants | 2,864 |
| 14,049 | Capital Receipts Applied | 14,933 |
| 3,104 | EEC & Lottery Grants | 1,972 |
| 5,252 | Public & Private Sector Contributions | 12,452 |
| 517 | Miscellaneous Income | 1,016 |
| 245 | Capital from current revenue | 1,036 |
| - | Capital Fund | 1,284 |
| 27,320 | Borrowing | 28,801 |
| 61,192 | | 64,358 |

20. Commitments under Capital Contracts

As at 31 March 2007, the total value of legal commitments on capital contracts was £40.077m (£76.456m 2005/06).

21. Analysis of Assets Held

| No. of Assets Held 2005/2006 | | No. of Assets Held 2006/2007 |
|------------------------------------|---|------------------------------------|
| 14,469 | Council Dwellings | 14,107 |
| 58 | Travelling People Sites | 54 |
| 156 | Nursery Schools/Units | 156 |
| 184 | Primary Schools | 184 |
| 29 | Secondary Schools | 29 |
| 20 | Residential Homes (elderly) | 20 |
| 8 | Residential Homes (children) | 8 |
| 3 | Residential Homes (learning Disabilities) | 3 |
| 254 | Industrial and Commercial Units | 250 |
| 46,359 | Street Lighting Units | 46,507 |
| 577 | Parks and Open Spaces | 577 |
| 236 | Cemeteries and Crematorium | 236 |
| 17 | Landfill Sites | 17 |
| 2,415 km | Non Principal Roads | 2,418 km |
| 2,871 km | Unclassified Roads | 2,888 km |

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NOTES TO THE CORE STATEMENTS

22. Operating Lease Payments

Rental payments made in respect of operating leases in the year were as follows:

| Payments 2005/06 £'000 | | Payments 2006/07 £'000 |
|------------------------------|-----------------------------|---------------------------------------|
| 1,728 | Land and Buildings | 1,461 |
| 5,740 | Vehicles, Plant & Equipment | 7,735 |
| 7,468 | Total | 9,196 |

23. Operating Lease Obligations

At 31 March 2007 the Council was committed to making payment of £6.859m in respect of operating leases in 2007/08 as follows: :

| Date of Expiry of Lease | Land and Buildings Leases | Other operating leases | Total |
|---|---------------------------------|------------------------------|--------------|
| | £'000 | £'000 | £'000 |
| Before 31 March 2008 | 52 | 1,300 | 1,352 |
| Between 01 April 2008 and 31 March 2012 | 504 | 3,613 | 4,117 |
| After 1 April 2012 | 701 | 689 | 1,390 |
| | 1,257 | 5,602 | 6,859 |

NOTES TO THE CORE STATEMENTS

24. Operating Lease Income

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|---|------------------|
| 3,992 | Aggregate rentals received in the year | 2,934 |
| 43,825 | Gross amounts of assets held for use in operating leases | 43,241 |
| 833 | Accumulated depreciation charges on assets held for use in operating leases | 1,154 |

25. Gross Assets Recognised Under PFI Arrangements

There are no assets procured under PFI arrangements that are recognised as being the Council's assets.

26. Valuation bases of fixed assets

Generally, assets are re-valued on a five-yearly rolling programme by the Head of Property, Property and Architectural Services, Highland Council. More specific details relating to the valuation of assets are:

(a) Council Dwellings: valued at net realisable value using the House Type Comparative method. These assets are depreciated at a rate equal to the annuity rate on the outstanding debt. These assets were last revalued at 1 April 2005.

(b) Other Land and Buildings: valued at lower of net current replacement cost or net replacement value in existing use.

| | Most Recent Revaluation date | Depreciation Rate (years) |
|---------------------|---------------------------------|------------------------------|
| Schools | 1 April 2004 | 60 |
| Residential Homes | 1 April 2005 | 30-60 |
| Office Depots | 1 April 2005 | 60 |
| Sports Facilities | 1 April 2005 | 60 |
| Public Conveniences | 1 April 2005 | 40-60 |

NOTES TO THE CORE STATEMENTS

(c) **Vehicles Plant and Equipment:** valued at historic cost, net of depreciation. IT equipment is depreciated over 5 to 10 years; Vessels are depreciated over 40 years and Vehicles are depreciated over 5 to 15 years.

(d) **Infrastructure Assets and Community Assets:** valued at historic cost net of depreciation. Coast Protection and Flood Prevention schemes, piers and harbours are all depreciated over 60 years. Roads are depreciated over 30 years. Community Assets are made up of areas of land and as they are not subject to depletion they have not been depreciated.

The historic cost shown for community assets is the known historic cost. Due to the nature, age and history of community assets it is not possible to identify a historic cost for all community assets owned by the Council.

The Council is not aware of any material changes in the value of assets included in the balance sheet at current value which are not reflected.

(e) **Non-operational assets:** Investment Properties lower of net current replacement cost or net replacement value in existing use. The most recent valuation date of industrial units held for investment purposes was 1 April 2002. These properties are not depreciated. Assets under development are valued on a historical cost basis. Surplus assets awaiting disposal are valued at current (market) value.

27. Long Term Debtors

| 31 March 2006 | | 31 March 2007 |
|---------------|--|---------------|
| £'000 | | £'000 |
| 21,279 | Debt advanced to Police Joint Board | 20,371 |
| 16,020 | Debt advanced to Fire Joint Board | 14,518 |
| 418 | House Loans | 342 |
| 69 | Car Loans to staff | 50 |
| 1,000 | Cairngorm Funicular Loan | 1,000 |
| (1,000) | Less: provision | (1,000) |
| 220 | Highland Prospect Loan | 0 |
| (220) | Less: provision | 0 |
| 1,373 | PPP Residual Debtor | 1,716 |
| 4,788 | Highland Housing Association | 5,913 |
| 600 | Inverness Caledonian Thistle Properties (2004) Ltd | 0 |
| 103 | Other loans | 149 |
| 44,650 | Total | 43,059 |

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NOTES TO THE CORE STATEMENTS

28. Analysis of Borrowing

(a) Analysis by maturity

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---------------------------------|------------------------|---------------------------------|
| 23,311 | Maturing within 1 year | 24,558 |
| 684 | Between 1 and 2 years | 36 |
| 36 | Between 2 and 5 years | 0 |
| 1,000 | Between 5 and 10 years | 1,750 |
| 555,975 | In more than 10 years | 577,743 |
| 581,006 | Total Borrowing | 604,087 |

(b) Analysis by loan type

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---|--------------------------|------------------------------------|
| Borrowing repayable in less than 1 year | | |
| 240 | Public Works Loans Board | 183 |
| - | Market Long-term | 500 |
| 1,921 | Market short-term | 1,215 |
| Internal debt | | |
| 7,463 | Pension Fund | 6,805 |
| 2,038 | Educational Trusts | 2,117 |
| 978 | Other Trusts | 1,043 |
| 1,616 | Common Good | 1,609 |
| 1,030 | H2007 | 1,744 |
| 5,495 | Police Joint Board | 6,129 |
| 2,325 | Fire Joint Board | 3,115 |
| 205 | Valuation Joint Board | 98 |
| 23,311 | Total Short-term | 24,558 |
| Borrowing repayable in more than 1 year :- | | |
| 437,770 | Public Works Loans Board | 461,113 |
| 119,925 | Market Long-term | 118,416 |
| 557,695 | Total Long-term | 579,529 |
| 581,006 | Total Borrowing | 604,087 |

NOTES TO THE CORE STATEMENTS

(c) Analysis of fixed and variable

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---------------------------------|------------------------|---------------------------------|
| 552,620 | Fixed | 593,622 |
| 28,386 | Variable | 10,465 |
| 581,006 | Total Borrowing | 604,087 |

(d) Loans Fund Interest and Expenses Rates

| As at 31 March 2006 % | | As at 31 March 2007 % |
|-----------------------------|--------------------------|-----------------------------|
| 5.63 | Loans Fund Interest Rate | 5.54 |
| 0.05 | Loans Fund Expenses Rate | 0.04 |
| 5.68 | Total | 5.58 |

29. Provisions

| 31 March 2006 £'000 | | 31 March 2007 £'000 | Movement £'000 |
|---|-----------------------------------|------------------------|-------------------|
| | Long Term Debtor Provision | | |
| 1,000 | Cairngorm Funicular Loan | 1,000 | - |
| 220 | Highland Prospect Loan | - | (220) |
| 1,220 | | 1,000 | (220) |
| | Stock Provision | 145 | 145 |
| The above provisions are netted off the appropriate asset in the balance sheet. | | | |
| | Bad Debt Provision | | |
| 20,495 | Council Tax | 20,778 | 283 |
| 9,677 | Community Charge | 9,610 | (67) |
| 6,079 | Non-domestic Rates | 6,361 | 282 |
| 1,311 | Sundry Debtors etc | 1,765 | 454 |
| 2,070 | Housing Rents (HRA) | 2,350 | 280 |
| 39,632 | | 40,864 | 1,232 |
| | Other Provisions | | |
| - | Insurance Provision | 121 | 121 |
| 8,293 | Equal Pay Provision | 125 | (8,168) |
| - | Single Status | 3,925 | 3,925 |
| - | Management Restructure | 1,569 | 1,569 |
| 8,293 | | 5,740 | (2,553) |
| 49,145 | Total Provisions | 47,749 | 1,396 |

NOTES TO THE CORE STATEMENTS

For the first time a provision has been included in the accounts for the potential cost of unsettled insurance claims raised during financial year ending 31 March 2007. This provision relates to the operation of the Council's Insurance Fund which is further detailed in note 33 to the Accounts. It is anticipated that the charges against the provisions for Insurance, Equal Pay settlements; the potential cost of implementing a Single Status agreement and the potential cost of the management restructuring will be made in 2007/08.

Following a detailed review of stock in the Transport, Environment and Community Service, obsolete stock to the value of £0.145m was identified. A provision was created for this pending a committee decision to write off the stock.

Provision has also been made in 2006/07 for the potential impact on the financial year of a management restructuring process which was initiated in March 2007.

30. Net Asset Analysis

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---------------------------------|-------------------------|------------------------------|
| 156,100 | General Fund | 225,372 |
| 527,028 | Housing Revenue Account | 515,440 |
| 5,295 | Trading Operations | 5,297 |
| 688,423 | Total | 746,109 |

31. Movements on Reserves

| | As at 1 April 2006 £'000 | Gains/ Losses in year £'000 | Surplus/ (Deficit) £'000 | Transfers Between Reserves £'000 | As at 31 March 2007 £'000 |
|------------------------------------|-----------------------------------|--------------------------------------|--------------------------------|---|------------------------------------|
| General Fund | 21,002 | - | 22,917 | (13,786) | 30,133 |
| Housing Revenue Account | 9,410 | - | | (517) | 8,893 |
| Insurance Fund | - | - | 19 | 521 | 540 |
| Fixed Asset Restatement Account | 610,420 | (6,188) | (14,422) | | 589,810 |
| Capital Financing Account | 149,332 | - | 14,933 | 5,349 | 169,614 |
| Usable Capital Receipts Reserve | 6,908 | - | (1,512) | | 5,396 |
| Repairs and Renewals Fund | 1,278 | - | 60 | (53) | 1,285 |
| Capital Fund | 17,363 | - | 461 | 2,945 | 20,769 |
| Pensions Reserve | (127,290) | 41,418 | | 5,541 | (80,331) |
| Total | 688,423 | 35,230 | 22,456 | - | 746,109 |

NOTES TO THE CORE STATEMENTS

32. Contingent Liabilities

(a) Scrabster Harbour Trust

The Council has guaranteed three loans from the Public Works Loan Board (PWLB) to Scrabster Harbour Trust. The Harbour Trustee's current loan obligations to the PWLB comprise half yearly repayments of principal and interest. As at 31 March 2007, the first loan (expiry December 2018) had a balance of £1.215m (total annual repayment £0.154m), the second loan (expiry March 2021) had a balance of £0.431m (total annual repayment £0.053m). A third loan for £3.1m is still, as at 31 March 2007, to be secured by the Trust from the PWLB for a 15 year period. The Council has guaranteed a bank loan until the Trustees take up the PWLB loan.

In the event of default by the Trustees in making any repayment, the PWLB would be entitled to demand payment of those instalments by the Council. The Council has taken security over the Trust's land and buildings.

(b) Mallaig Harbour Authority

The Council has guaranteed a 25 year loan from the PWLB to Mallaig Harbour Authority. The Harbour Authority's current loan obligations to the PWLB comprise half yearly repayments of principal and interest totalling £0.034m. The balance of that loan as at 31 March 2007 is £0.397m.

In the event of default by the Harbour Authority in making any repayment, the PWLB would be entitled to demand payment of those instalments by the Council.

The Council in acting as loans guarantor is doing so under the powers, inter alia, of Section 171A of the Local Government (Scotland) Act 1973. The Council holds security over the Authority's land and buildings.

(c) Aonach Mor Development

The ground used for the ski development is leased by the Highland Council from the owners, and sub-let to the Nevis Range Development Company. The Council is obliged to remove all buildings, machinery and other items at the expiry or earlier termination of the leases, and to restore the let subjects to their original condition. Restoration may not be required if operation of the resort can be continued. The cost of restoration cannot be readily quantified, but would be considerable. The leases expire in 2048.

(d) Lochinver Harbour Bonded Warehouse

The Council operates a bonded warehouse at Lochinver Harbour. HM Customs & Excise now require an independent guarantee from a financial institution so that any loss of monies from unpaid duty can be collected. The Clydesdale Bank, as bankers for the Council, have provided a guarantee, but require the Council to indemnify them against any claims and costs incurred. The guarantee is for the sum of £20,000.

NOTES TO THE CORE STATEMENTS

(e) Caithness Heat and Power (CHAP)

As at 31.03.07 there were two guarantees in place by the Council in favour of Clydesdale Bank PLC as follows:

A maximum guarantee of £3m in respect of the lease finance facilities provided by the Bank to CHAP. This guarantee is for a period of 10 years, therefore if not called upon will terminate on 27 March 2017.

Secondly a maximum guarantee of £2m for overdraft facilities provided by the Bank to CHAP. This guarantee, if not called upon until will be released on 1 July 2007 if CHAP meets all of its obligations to the bank and the Council delivers a new overdraft guarantee of £1m to the bank. This new overdraft guarantee will continue for so long as the Bank provides the overdraft facilities to CHAP. The Bank will review annually whether or not it is prepared to release the new overdraft guarantee but whether or not it does so will be at the Bank's sole discretion.

33. Insurance Fund

Using powers in the Local Government Scotland Act 1975, schedule 3, the Council has established an Insurance Fund with £0.250m from General Fund balances to meet uninsured losses. In addition, £0.271m from premiums charged to Services throughout the year were added to the fund. This fund enables the Council to self insure General fund properties for the risks of storm, flood, burst pipes and malicious damage.

34. Events After The Balance Sheet Date – Authorisation of Accounts

The Director of Finance authorised the Statement of Accounts, for the year ended 31 March 2007, for issue on 28 June 2007 and confirms that events up to this date were considered in preparing these accounts.

35. Pension Reserve

The actuarial gain/ (loss) on the pension reserve is analysed into the following categories, measured as actual amounts and as a percentage of pension fund assets or liabilities at the year end.

| Year | Actual Return less Expected Return on Pension Scheme Assets | | Experience Gains and (Losses) arising on the Scheme liabilities | | Changes in the Financial Assumptions Underlying the Present Value of the Scheme Liabilities | |
|---------|---|------|---|-------|---|---------|
| | £'000 | % | £'000 | % | £'000 | % |
| 2006/07 | 9,265 | 1.55 | 411 | - | 32,112 | 40 |
| 2005/06 | 76,232 | 14.1 | 44,526 | 6.7 | (73,646) | 57.8 |
| 2004/05 | 221,193 | 5.5 | (975) | (0.2) | (100,099) | (58.88) |
| 2003/04 | 45,378 | 12.8 | 230 | 0.1 | | |
| 2002/03 | (106,624) | 37.6 | (24,385) | 6.3 | | |
| | | | | | | |

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NOTES TO THE CORE STATEMENTS

36. Pensions Assets and Liabilities

In accordance with FRS 17, the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in Note 15 of the Accounting Policies the Council participates in the Local Government Pension Scheme, via the Highland Council Pension Fund. In addition, the Council has liabilities for discretionary pension payments outside the main schemes.

The Council and employees pay into a fund and contributions are calculated at a level estimated to balance the pension liabilities with investment assets.

The accounting requirements of the Teachers Superannuation Scheme are exempt from FRS 17 as the assets and liabilities of the scheme cannot be reliably attributed to participating authorities.

As at 31 March 2007, the Highland Council Pension Fund's assets and liabilities attributable to Highland Council amounted to:

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---------------------------------|--|---|
| 540,750 | Estimated assets in the scheme | 598,072 |
| (638,935) | Estimated liabilities in the scheme | (649,956) |
| (29,105) | Estimated liabilities for Discretionary pensions | (28,447) |
| (127,290) | Net pension Asset/ (Liability) | (80,331) |

The liabilities show the underlying commitments that the Council has to pay retirement benefits. The net pension liability of £80.331m exceeds the current General Fund reserve of £30.133m by £50.198m. The actuarial valuation will consider the appropriate employer's contribution rates. Revenue generated from employer's and employee's contributions and from investments, are utilised to meet the fund's commitments.

NOTES TO THE CORE STATEMENTS

The net movement on the Net Pension Asset/(Liability) is comprised as follows:

| As at 31 March 2006 £'000 | | As at 31 March 2007 £'000 |
|---------------------------------|---|---------------------------------|
| (170,000) | Opening Pension Asset/(Liability) | (127,290) |
| (19,203) | Current Service Cost | (25,167) |
| (866) | Past Service Cost | 7,040 |
| (276) | Settlements and Curtailments | (13) |
| (31,372) | Interest Cost | (32,959) |
| 29,673 | Return on Assets | 36,628 |
| 17,642 | Employers Contributions | 20,012 |
| 47,112 | Actuarial Gains/ (Losses) | 41,418 |
| (127,290) | Net Pensions Asset / (Liability) | (80,331) |

The liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the scheme discounted to their present value. The valuations are based on a valuation, as at 31 March 2007 by Hymans Robertson, the independent actuaries to the Council. The main assumptions used in the calculation are:

| As at 31 March 2006 % | | As at 31 March 2007 % |
|-----------------------------|-------------------|-----------------------------|
| 3.1 | Price increases | 3.2 |
| 4.6 | Salary increases | 4.7 |
| 3.1 | Pension increases | 3.2 |
| 4.9 | Discount Rate | 5.4 |

The discount rate employed for the 2006/07 financial year is the yield available on long-dated, high quality corporate bonds (as measured by the yield on iboxx Sterling Corporate's Index, AA over 15years) at 31 March 2006 as required by the SORP.

Assets are valued at fair value, principally market value for investments, and consist of:

| As at 31 March 2006 | | | As at 31 March 2007 | |
|--------------------------|--------------------------------|--------------------|--------------------------|--------------------------------|
| Market Value £'000 | Assumed rate of return % | | Market Value £'000 | Assumed rate of return % |
| 388,640 | 7.4 | Equity Investments | 425,227 | 7.8 |
| 86,581 | 4.6 | Bonds | 92,069 | 4.9 |
| 55,004 | 5.5 | Property | 69,307 | 5.8 |
| 10,525 | 4.6 | Cash | 11,470 | 4.9 |
| 540,750 | 6.7 | Total | 598,073 | 7.1 |

NOTES TO THE CORE STATEMENTS

37. Pensions

As part of the terms and conditions of employment of teachers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to disclose the cost of these payments at the time that the employees earn their future entitlement.

Teachers

The pension cost charged to the Accounts is the contribution rate set by the Scottish Executive on the basis of a notional fund. In 2006/07 the Highland Council paid £11.321m (£11.138m) to the Scottish Executive in respect of Teachers' pension costs, which represents 12.50% (12.52%) of Teachers' pensionable pay. Highland Council now meets 100% of Teachers' Pension Contributions; the financial pressure of meeting these costs has been supported by a transfer of funding from the Treasury.

In addition the Highland Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2006/2007 these amounted to £0.69m (£0.70m) representing 0.76% (0.78%) of pensionable pay.

Other Employees

The contribution rate to the Local Government Pension Fund is determined by the Fund's Actuary based on triennial actuarial valuations. In 2006/07 the Highland Council paid an employer's contribution of £18.4m (£16.0m) into the Fund, representing 15.93% (14.46%) of pensionable pay.

In accordance with the SORP guidance on the application of FRS 17, the Income and Expenditure Account recognises the true economic cost of retirement benefits earned by employees in 2006/07, irrespective of when the benefits will be paid. These costs are based on an assessment by the Fund's Actuary of Highland Council's share of the assets and liabilities at 31 March 2007. The Actuary is unable to provide an analysis of FRS 17 pension costs by individual service, therefore the net pension costs have been apportioned on the basis of the actual cash payments made by each Service in 2006/07.

The Council can only levy council tax to meet actual cash payments, therefore the following transactions have been made in the Income and Expenditure Account during the year to reverse the impact of the true economic cost of retirement benefits.

NOTES TO THE CORE STATEMENTS

| 2005/06 £'000 | | 2006/07 £'000 | 2006/07 £'000 |
|------------------|---|------------------|------------------|
| 17,642 | Employers contributions payable to the scheme | | 20,012 |
| | Less FRS 17 Charges: | | |
| 19,203 | Current Service Cost | | 25,167 |
| 866 | Past Service Cost | | (7,040) |
| 276 | Curtailement and Settlements | | 13 |
| 31,372 | Pension Interest Cost | 32,959 | |
| (29,673) | Expected Return on Assets in the scheme | (36,628) | |
| | | | (3,669) |
| (4,402) | Contribution to/(from) Pension Reserve | | 5,541 |

38. Reconciliation between the net surplus or deficit on the Statement on Movement of the General Fund to the Net Cash Inflow from Revenue Activities per the Cash Flow Statement

| 2005/2006 £'000 | | 2006/2007 £'000 | 2006/2007 £'000 |
|--------------------|--|--------------------|--------------------|
| 5,125 | Income and Expenditure Account (surplus)/deficit for year | | (22,622) |
| | Non Cash Items | | |
| (4,402) | FRS 17 transactions | 5,541 | |
| (28,037) | Interest Paid/ Received | (18,109) | |
| (24,350) | Depreciation | (25,763) | |
| 1,622 | Amortised Govt Grants and Capital Contributions | 6,535 | |
| 245 | Capital Funded from Current Revenue | 1,036 | |
| 321 | FRS 5 – PPP adjustments | 321 | |
| (2,465) | Gain/Loss on Sale of Assets | (273) | (30,712) |
| | Items on Accruals Basis | | |
| 206 | (Increase) / Decrease in Stocks | 742 | |
| 2,735 | (Increase) / Decrease in Debtors | 2,881 | |
| 7,749 | Increase / (Decrease) in Creditors | (33,995) | |
| (8,179) | Increase /(Decrease) in Provisions | 1,397 | (28,975) |
| (49,430) | NET CASH FLOW FROM REVENUE ACTIVITIES | | (82,309) |

NOTES TO THE CORE STATEMENTS

39. Reconciliation of the movement in cash to the movement in net debt

| Analysis of Net Debt | 1 April 2006 | Cashflow | 31 March 2007 |
|---------------------------|----------------|-----------------|------------------|
| | £'000 | £'000 | £'000 |
| Cash in hand | (106) | (17) | (123) |
| Overdrafts | 14,306 | (10,417) | 3,889 |
| Sub-total (A) | 14,200 | (10,434) | 3,766 |
| Debt due within one year | 23,311 | 1,247 | 24,558 |
| Debt due after one year | 557,695 | 21,834 | 579,529 |
| Premiums & Discounts | (46,177) | 2,005 | (44,172) |
| Sub-total (B) | 534,829 | 25,086 | 559,915 |
| Current Asset Investments | (9,950) | (49,452) | (59,402) |
| Other Liquid Resources | - | 3,227 | 3,227 |
| Sub-total (C) | (9,950) | (46,225) | (56,175) |
| Total (A)+(B)+(C) | 539,079 | (31,573) | (507,506) |

40. Reconciliation of relevant movements within the financing and management of liquid resources

| | 1 April 2006 | Cashflow | 31 March 2007 |
|---|----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Management of Liquid Resources | | | |
| Short Term Investments | (9,950) | (49,452) | (59,402) |
| Other Liquid Resources | - | 3,227 | 3,227 |
| | (9,950) | (46,225) | (56,175) |
| Management of Financing | | | |
| Temporary Loans | 1,920 | (706) | 1,215 |
| PWLB Loans | 438,010 | 23,287 | 461,296 |
| Money Market Loans | 119,925 | (1,009) | 118,916 |
| Other Authorities | 21,149 | 1,510 | 22,660 |
| Premiums & Discounts | (46,177) | 2,005 | (44,172) |
| Net Financing - per Cash Flow Statement | 534,827 | 25,087 | (559,915) |

NOTES TO THE CORE STATEMENTS

41. Analysis of Other Government Grants

| 2005/2006 £'000 | | 2006/2007 £'000 |
|--------------------|---|--------------------|
| (134) | Housing Support Grant | (136) |
| (22,788) | Housing Benefit | (12,406) |
| | <u>Specific Grants:</u> | |
| (991) | Gaelic | (1,175) |
| (10,727) | Education National Priorities Action Fund | (11,363) |
| (598) | Mental Illness | (598) |
| (252) | Social Work Training | (283) |
| (281) | Supported Employment | (351) |
| <u>(35,771)</u> | | <u>(26,312)</u> |

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HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

| 2005/2006 £'000 | | 2006/2007 £'000 | 2006/2007 £'000 |
|--------------------|---|--------------------|--------------------|
| (37,704) | Dwelling Rents (gross) | (37,763) | |
| (1,423) | Non-Dwelling Rents (gross) | (1,613) | |
| (134) | Housing Support Grants | (136) | |
| (2,302) | Other Income | (3,509) | |
| (41,563) | Total Income | | (43,021) |
| | Expenditure | | |
| 12,970 | Repairs and Maintenance | 13,373 | |
| 6,634 | Supervision and Management | 7,608 | |
| 7,337 | Depreciation and impairment of fixed assets | 7,171 | |
| 4,721 | Other Costs | 5,069 | |
| 31,662 | Total Expenditure | | 33,221 |
| (9,901) | Net Cost of HRA Services as included in the whole authority Income and Expenditure Account | | (9,800) |
| 530 | HRA Share of Corporate and Democratic Core | 684 | |
| 106 | HRA share of non Distributed Costs | (290) | 394 |
| (9,265) | Sub Total: Net Cost of Services | | (9,406) |
| (2,656) | Gain or loss on disposal of fixed assets | 8 | |
| 8,828 | Interest payable and similar charges | 8,458 | |
| 519 | Amortisation of premiums/discounts | 529 | |
| (77) | Interest and investment income | (194) | |
| 108 | Pensions interest cost and expected return on pension assets | (232) | 8,569 |
| (2,543) | (SURPLUS)/DEFICIT for the year | | (837) |

STATEMENT ON THE MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

| 2005/2006 £'000 | (SURPLUS)/DEFICIT for the year on HRA Services | 2006/2007 £'000 | 2006/2007 £'000 (837) |
|---|---|--------------------|-----------------------------|
| Additional amounts required by statute or non-statutory proper practices to be taken into account in determining the increase or decrease in the Housing Revenue Account balance | | | |
| 262 | Difference between any item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory requirements or non-statutory proper practices | 368 | |
| 2,656 | Net gain or loss on sale of fixed assets | (8) | |
| (7,168) | Depreciation and Impairment of fixed assets | (7,172) | |
| 14 | Government Grants and Capital Contributions amortised matching depreciation and impairments | 320 | |
| (281) | FRS 17 Pension Costs different from contributions due under pension scheme regulations | 351 | |
| 7,168 | Statutory provision for repayment of debt | 7,002 | |
| 758 | Transfer to/from the General Fund | 493 | |
| 3,409 | | | 1,354 |
| 866 | (Increase)/Decrease in the HRA balance | | 517 |
| 10,276 | Housing Revenue Account Balance brought forward | | 9,410 |
| 9,410 | Housing Revenue Account Balance carried forward | | 8,893 |

NOTES ON THE HOUSING REVENUE ACCOUNT

1. Rent Arrears

Rent arrears were as follows:

| 2005/06 | | 2006/07 |
|----------------|-----------------|----------------|
| Actual | | Actual |
| £'000 | | £'000 |
| 1,271 | Current Tenants | 1,375 |
| 1,407 | Former Tenants | 1,633 |
| 2,678 | Total | 3,008 |

2. Provision for Bad and Doubtful Debts

Provision for bad and doubtful debts is specifically made for rent arrears. Provision is also made for sundry debts which is included within the total sundry bad debt provision of £1.765m in Note 29 to the Core Statements Balance Sheet on page 47.

| | As at 31 March 06 £'000 | Movement in Year £'000 | As at 31 March 07 £'000 |
|----------------------------|--|---------------------------------------|--|
| Provision for Rent Arrears | 2,070 | 280 | 2,350 |
| Provision for Sundry Debts | 302 | 92 | 394 |
| Total Provision | 2,372 | 372 | 2,744 |

3. Housing Stock

The Council's housing stock was as follows:

| As at 31 March 06 | Size | As at 31 March 07 |
|------------------------------|--------------|------------------------------|
| 297 | 1 Apartment | 176 |
| 2,784 | 2 Apartment | 3,453 |
| 5,941 | 3 Apartment | 5,693 |
| 4,991 | 4 Apartment | 4,383 |
| 415 | 5 Apartment | 390 |
| 41 | 6 Apartment | 10 |
| | 7 Apartment | 1 |
| | 8 Apartment | 1 |
| 14,469 | Total | 14,107 |

The figures as at 31 March have been restated as both current and previous years figures are based on improved data, from the Housing Information System which was not previously available.

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NON DOMESTIC RATE INCOME ACCOUNT

| 2005/2006 | | 2006/2007 |
|------------------|--|------------------|
| £'000 | | £'000 |
| 89,518 | Gross Rates Levied and Contributions in lieu | 96,140 |
| (13,750) | Less Reliefs & Other Deductions | (14,496) |
| (34) | Payment of Interest | (16) |
| (811) | Rates written off and provision for write offs | (862) |
| 74,923 | | 80,766 |
| | <u>Prior Year Adjustments</u> | |
| 199 | Pool Years | 4,790 |
| 8 | Pre Pool Years | 7 |
| 75,130 | Net Non-domestic Rate Income | 85,563 |
| | <u>Allocated to:</u> | |
| 75,585 | Contribution to National Non-domestic Rate Pool | 86,019 |
| 8 | Adjustment for pre-pool years | 7 |
| (463) | Discretionary relief costs payable by Council | (463) |
| 75,130 | Net Non-domestic Rate Income | 85,563 |
| 78,428 | NDRI Distributable Amount | 78,394 |
| (463) | Less discretionary relief costs payable by Council | (463) |
| (1) | Less adjustments for prior years | 7 |
| 77,964 | To Income And Expenditure Account | 77,938 |

National Non Domestic Rates (NNDR) is regulated by central government. The Scottish Executive specifies an amount for the rate poundages as shown below, and subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from ratepayers in its area, but pays the proceeds into the NNDR pool administered by the Scottish Executive. The Scottish Executive redistributes the sums payable back to local authorities as part of the overall Finance settlement

The non-domestic rate poundages were as follows:

| 2005/06 | Per £ of Rateable Value | 2006/07 | Per £ of Rateable Value |
|---------------|------------------------------|--------------|------------------------------|
| 46.10p | Rateable Value under £29,000 | 44.9p | Rateable Value under £29,000 |
| 46.55p | Rateable Value over £29,000 | 45.3p | Rateable Value over £29,000 |

NON DOMESTIC RATE INCOME ACCOUNT

Analysis of Rateable Values as at 1 April 2006

| As at 1 April 2005 | | | As at 1 April 2006 | |
|--------------------|--------------------------|---|--------------------|--------------------------|
| Number of Units | Rateable Values £'000 | | Number of Units | Rateable Values £'000 |
| 2,572 | 50,288 | Shops | 2,576 | 51,222 |
| 824 | 15,841 | Public Houses/ Hotels | 868 | 16,015 |
| 1,552 | 20,176 | Offices | 1,601 | 20,602 |
| 2,691 | 30,154 | Industrial Subjects | 2,708 | 31,715 |
| 3,357 | 11,991 | Leisure, Entertainment, Caravans and Holiday Sites | 3,665 | 14,087 |
| 390 | 3,896 | Garages and Petrol Stations | 399 | 3,946 |
| 592 | 12,538 | Cultural/Sporting Subjects/Education and Training | 998 | 13,184 |
| 1,219 | 9,303 | Public Service Subjects | 1,233 | 10,391 |
| 1,901 | 37,707 | Miscellaneous | 2,086 | 56,112 |
| 15,098 | 191,894 | Total | 16,134 | 217,274 |

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COUNCIL TAX INCOME ACCOUNT

| 2005/2006 £'000 | | 2006/2007 £'000 |
|--------------------|--|--------------------|
| 109,895 | Gross Council Tax Levied and Contributions in lieu | 116,540 |
| 203 | Council Tax Benefits (net of Government Grants) | 40 |
| (14,396) | Other Discounts and Reductions | (14,942) |
| (3,811) | Provision for Bad and Doubtful Debts | (2,672) |
| 3,520 | Prior Year Adjustments | 1,838 |
| 95,411 | Net Income Collected on Behalf of the Council | 100,804 |
| 95,411 | To Income and Expenditure Account | 100,804 |

1. Background Information

Council Tax income derives from charges raised according to the value of residential properties which have been classified into eight valuation bands. Charges are calculated by taking the amount of income required for Highland Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert to a band D equivalent and adjusted for discounts. There were 86,657 band D equivalents in 2006/07.

The charge for a band D property (£1,135 in 2006/2007) is multiplied by the proportion specified for the particular band to give the individual amount due.

Certain categories of dwelling qualify for exemptions. Discount is also available for single occupation and empty properties. A Council Tax Benefit Scheme operates for taxpayers on low income.

2. Statutory Background

The Local Government Finance Act 1992 introduced the council tax with effect from 1 April 1993. From that date Council expenditure, after deducting income from fees and charges, grants and non domestic rates, is met from this council tax.

Council tax is payable on any dwelling which is not an exempt dwelling (prescribed by an order made by the Secretary of State). The amount of council tax payable depends on the valuation of the band of dwelling.

3. Provision for Bad and Doubtful Debts

Provision has been made for bad and doubtful debts on Council Tax and Community Charge debt outstanding. At 31 March 2007 the total provision is £30.388m (£30.172m). Note 29 to the Accounts provides details of all bad debt provisions on page 47.

COUNCIL TAX INCOME ACCOUNT

4 Calculation of Council Tax Base

Chargeable dwellings per valuation band adjusted for discounts etc:

| 2005/06 | | | | | | | | | | | 2006/07 |
|---------------|--|-------------|---------|---------|---------|---------|--------|-------|-------|------|---------------|
| Total | Bands: | A (dbr)* | A | B | C | D | E | F | G | H | Total |
| 104,980 | Properties | | 20,274 | 22,793 | 20,924 | 16,106 | 15,705 | 7,105 | 3,377 | 325 | 106,609 |
| (4,286) | Exemptions | | (1,600) | (1,055) | (866) | (594) | (468) | (175) | (86) | (27) | (4,871) |
| (618) | Disabled Relief | | (44) | (109) | (126) | (115) | (144) | (59) | (24) | 0 | (621) |
| 618 | Disabled Relief- Reduced Band | 44 | 109 | 126 | 115 | 144 | 59 | 24 | 0 | 0 | 621 |
| (8,931) | Discounts 25% | (4) | (2,530) | (2,441) | (1,804) | (1,072) | (794) | (260) | (106) | (7) | (9,018) |
| (3,305) | Discounts 50% | | (482) | (511) | (642) | (491) | (416) | (185) | (128) | (45) | (2,900) |
| 88,458 | Effective Properties | 40 | 15,727 | 18,803 | 17,601 | 13,978 | 13,942 | 6,450 | 3,033 | 246 | 89,820 |
| | Ratio: | 5/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| 84,977 | Band D equivalents | 22 | 10,485 | 14,624 | 15,645 | 13,978 | 17,040 | 9,316 | 5,055 | 492 | 86,657 |
| 177 | Contributions in Lieu | | | | | | | | | | 174 |
| 85,154 | TOTAL | | | | | | | | | | 86,831 |
| (3,406) | Bad Debt Provision, 3% of total chargeable (4% in 2005/06) | | | | | | | | | | (2,605) |
| 81,748 | Council Tax Base | | | | | | | | | | 84,226 |

*Note A (dbr) = Band A properties with disabled band reduction (dbr)

5 Number of Properties per Band

| 2005/06 | | | | | | | | | | | 2006/07 |
|------------------------|--------------------------|-------------|--------|--------|--------|----------|----------|----------|----------|----------|---------------|
| Total | Bands: | A (dbr)* | A | B | C | D | E | F | G | H | Total |
| 6,811 | Badenoch & Strathspey | | 384 | 1,400 | 1,608 | 921 | 1,404 | 701 | 472 | 47 | 6,937 |
| 12,548 | Caithness | | 6,674 | 1,954 | 1,544 | 1,713 | 629 | 101 | 20 | 7 | 12,642 |
| 32,300 | Inverness | | 4,212 | 8,223 | 5,783 | 5,389 | 5,384 | 2,648 | 1,207 | 105 | 32,951 |
| 9,481 | Lochaber | | 562 | 1,677 | 3,908 | 1,050 | 1,499 | 639 | 224 | 37 | 9,596 |
| 5,491 | Nairn | | 446 | 1,203 | 1,167 | 978 | 992 | 511 | 270 | 35 | 5,602 |
| 23,970 | Ross & Cromarty | | 4,667 | 5,273 | 4,185 | 3,475 | 3,798 | 1,872 | 966 | 64 | 24,300 |
| 6,869 | Skye & Lochalsh | | 856 | 1,364 | 1,560 | 1,599 | 1,206 | 310 | 91 | 11 | 6,997 |
| 7,510 | Sutherland | | 2,473 | 1,699 | 1,169 | 981 | 793 | 323 | 127 | 19 | 7,584 |
| 104,980 | Total Properties | | 20,274 | 22,793 | 20,924 | 16,106 | 15,705 | 7,105 | 3,377 | 325 | 106,609 |
| Charges 2006/07 | £ | | 630.56 | 756.67 | 882.78 | 1,008.89 | 1,135.00 | 1,387.22 | 1,639.44 | 1,891.67 | 2,270.00 |
| Charges 2005/06 | £ | | 603.33 | 724.00 | 844.67 | 965.33 | 1,086.00 | 1,327.33 | 1,568.67 | 1,810.00 | 2,172.00 |

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CORPORATE GOVERNANCE ASSURANCE STATEMENT

The Highland Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, elected members collectively and senior officers individually are responsible for putting in place proper arrangements for the governance of the Highland Council's affairs and the stewardship of the resources at its disposal. To this end, the Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework "Corporate Governance in Local Government: A Keystone for Community Governance".

A copy of the code may be obtained from the Chief Executive, Council HQ, Glenurquhart Road, Inverness, IV3 5NX.

The Local Code details how the Council will apply the fundamental principles of Corporate Governance for public sector bodies to the following five headings:

1. Community Focus
2. Service Delivery Arrangements
3. Structures and Processes
4. Risk Management and Internal Controls
5. Standards of Conduct

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Deputy Chief Executive has been given responsibility for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation
- reviewing the operation of the Local Code of Corporate Governance in practice
- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Depute Chief Executive has taken into account the results of reviews of internal control that have been carried out within each Council Service.

In addition, The Highland Council's Director of Finance, through the Head of Internal Audit and Risk Management, has been given the responsibility to review independently and report to the Audit and Scrutiny Committee annually on the adequacy and effectiveness of the Local Code and the extent of compliance with it.

The Head of Internal Audit and Risk Management's responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report to the Audit and Scrutiny Committee on 23 August 2007.

CORPORATE GOVERNANCE ASSURANCE STATEMENT

To ensure proper Council scrutiny, the Council considered a report by the Depute Chief Executive on progress with the 2006/07 Local Code of Corporate Governance on 28th June 2007 and set objectives for the financial year 2007/08.

On the basis of the reports by the Depute Chief Executive and the Head of Internal Audit and Risk Management we are satisfied that the Council's governance arrangements are operating effectively. However it is accepted that the Council must strive for continuous improvement in performance and it is proposed over the coming year to take steps to address the following matters to further enhance our corporate governance arrangements:-

- (i) Complete outstanding issues which were identified in the Local Code of Corporate Governance for 2006/07, such as ensuring all relevant Managers and Elected Members are aware of the requirements placed upon them by the revised Contract Standing Orders; reviewing the systems of Health and Safety Risk Assessments; ensure continuing progress in making public caller buildings in the Highland Council area Disability Discrimination Act (DDA) compliant; review the Code of Conduct for Employees; complete the job evaluation and harmonisation process and identify equal pay risks; and complete the Corporate Asset Management Plan.
- (ii) Take forward as planned those matters arising from the Depute Chief Executive's report, submitted to the Council on 28th June 2007 relating to progress made in implementing the Code during 2006/07 and the suggested themes to be covered in 2007/08. Examples of work activity include ensuring the budget process is suitably linked to the Corporate Plan and Service Plans; developing a system of performance review and appraisal for Directors; implement the Council's plan in relation to Equality in Service Delivery; and continue to seek to achieve targets for improvements in statutory performance indicators.
- (iii) Complete the remaining actions in the Best Value Improvement Plan as reported to the Council in March 2007, and to address any issues raised by Audit Scotland following their review of progress made, expected in August 2007. The remaining actions include the completion of a corporate asset management plan and the completion of the pay and personnel project.
- (iv) Progress areas for improvement outlined in the draft Annual Report of the Head of Internal Audit and Risk Management, to be presented to the Audit and Scrutiny Committee on 23 August 2007. The key areas that this report addresses for improvement, include the need to: complete a framework for business continuity; provide better training on the Financial Regulations; maintain a Corporate Risk Register which links to Corporate Plan Themes and Service Plans; develop a Procurement Strategy; ensure best value is being obtained from the Council's Statutory Trading Organisations; and to ensure users of Central Systems comply with the system guidance issued.

CORPORATE GOVERNANCE ASSURANCE STATEMENT

We are satisfied that these steps will address the need for improvements that have been identified and we will monitor their implementation and operation as part of our next annual review.

Convenor

Chief Executive

On behalf of the members and senior officers of the Highland Council.

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PENSION FUND ACCOUNTS

PENSION FUND

1. Explanatory Foreword

Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and of other scheduled and admitted bodies which are eligible to join it.

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of governance is the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme (Scotland) Regulations 1998.

The Fund is a separate entity from the Highland Council and its Accounts are not included in the Council's Core Statements. The Fund is built up by contributions from both employees and employing bodies, together with interest and dividends from investments, out of which defined pensions and other benefits are paid. The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits are met all surplus cash income is invested to meet future liabilities to employees within the Fund and deferred pension benefits.

Employees' contributions to the Fund are fixed by statute and contributions payable by employing bodies are fixed every three years following a report by an independent actuary who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits. An employer's contribution rate of 270% of employees' contributions was set by the Actuary for the period 1 April 2006 to 31 March 2007.

2. Actuarial Position

Employees' contributions are fixed by statute, from 1 April 1998 the contribution rate for all new employees is 6% of pensionable salary. Manual workers in employment as at 31 March 1998 retain their right to a 5% contribution rate. Employers' contributions are assessed every three years by an independent actuary and expressed as a percentage of employees' contribution rates.

The latest actuarial valuation was carried out as at 31 March 2005, in accordance with Regulation 76 of the Local Government Pension Scheme Regulations (Scotland) 1998 ("The Regulations"). An employers' contribution rate of 270% for 2006/07 was set using the "Projected Unit Method" by the Fund's Actuaries during the Valuation Process as at 31 March 2005. The main assumptions are demographic and financial as detailed below. The next triennial valuation of the Fund is due at 31 March 2008.

Demographic assumptions are used to estimate the future experience in the Fund. They take account of expected future trends (for instance future improvements in life expectancy) as well as past experience in the Fund.

Financial assumptions are used to estimate the amount of benefits and contributions payable and to place a current value on these benefits and contributions. The key financial assumptions are:

PENSION FUND

| | | Nominal | Real |
|--------------|-------------------|----------------|-------------|
| | | p.a. | p.a. |
| Investment | Return/Discount | 6.2% | 3.3% |
| Rate | | | |
| Pay Increase | | 4.4% | 1.5% |
| Price | Inflation/Pension | 2.9% | 0.0% |
| Increase | | | |

The actuarial projection of the Market Value of the scheme's assets as at 31 March 2005 was £583m. This actuarial value represented 92% of the Funds' accrued liabilities, allowing for future pay increases. The deficit is due to a drop in the value of equity markets at the time of valuation.

PENSION FUND

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

| 2005/2006 £'000 | | Notes | 2006/2007 £'000 |
|-----------------------|--|-------|-----------------------|
| | Dealings with Members, employers and others directly involved in the Scheme | | |
| | Contributions Receivable | | |
| 23,948 | From employers | 1 | 26,987 |
| 9,478 | From members | | 9,881 |
| <u>33,426</u> | | 2 | <u>36,868</u> |
| 5,461 | Transfers (In) | | 6,229 |
| <u>38,887</u> | | | <u>43,097</u> |
| | Benefits Payable | | |
| (17,517) | Pensions | | (18,753) |
| (3,658) | Lump Sums (incl. retirement & death grants) | | (4,526) |
| <u>(21,175)</u> | | 2 | <u>(23,279)</u> |
| | Payments to and on account of leavers | | |
| (185) | Refunds of Contributions | | (248) |
| (2,875) | Transfers (Out) | | (1,737) |
| <u>(3,060)</u> | | | <u>(1,985)</u> |
| (690) | Administrative and Other expenses borne by the scheme | 4 | (720) |
| <u>13,962</u> | Net Additions (Withdrawals) from dealings with members | | <u>17,113</u> |
| | Returns on Investments | | |
| 15,505 | Investment Income | 15 | 19,150 |
| 137,979 | Change in Market Value of Investments (Realised and unrealised) | | 45,076 |
| (248) | Taxation (irrecoverable withholding tax) | | (381) |
| (1,667) | Investment Management Expenses | 4 | (1,872) |
| <u>151,569</u> | Net Returns/(Loss) on Investments | | <u>61,973</u> |
| 165,531 | Net Increase (Decrease) in fund during the year | | 79,086 |
| 580,808 | Opening Net Assets of Scheme | | 746,339 |
| <u>746,339</u> | Closing Net Assets of the Scheme | | <u>825,425</u> |

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PENSION FUND

NET ASSETS STATEMENT AS AT 31 MARCH 2007

| As at 31/03/06 £'000 | | Notes | As at 31/03/07 £'000 |
|----------------------------|------------------------------------|-------|-----------------------------|
| | Investment Assets | 5 | |
| 382,483 | Equities | | 416,679 |
| 140,128 | Unitised Insurance Policies | | 155,837 |
| 77,824 | Unit Trusts – (Property) | | 96,707 |
| 127,111 | Unit Trusts – (Other) | | 138,865 |
| 10,846 | Cash Deposits | | 8,615 |
| 411 | Other Investment balances | | 1,564 |
| 738,803 | | | 818,267 |
| | Current Assets | | |
| 660 | Sundry Debtors | | 931 |
| 7,463 | Deposits with Council's Loans Fund | | 6,805 |
| 8,123 | | | 7,736 |
| | Less Current Liabilities | | |
| (587) | Sundry Creditors | | (578) |
| 7,536 | Net Current Assets | | 7,158 |
| 746,339 | NET ASSETS | | 825,425 |

NOTES TO THE PENSION FUND ACCOUNTS

Statement of Recommended Practice (SORP)

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the SORP). The Accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in the Accounts and should be read in conjunction with the actuary's report.

1. Special and Additional Contributions Receivable

Special contributions from employers totalling £0.564m to meet the strain on the Fund caused by early retirement are included under Contributions Receivable.

PENSION FUND

2. Contributions Receivable and Benefits Payable

| 2005/2006 | | | 2006/2007 | |
|--------------------------------------|------------------------------|------------------|--------------------------------------|------------------------------|
| Contributions Receivable £'000 | Benefits Payable £'000 | | Contributions Receivable £'000 | Benefits Payable £'000 |
| 23,066 | 16,313 | Highland Council | 25,384 | 17,899 |
| 8,493 | 4,002 | Scheduled Bodies | 9,367 | 4,531 |
| 1,867 | 860 | Admitted Bodies | 2,117 | 849 |
| 33,426 | 21,175 | Total | 36,868 | 23,279 |

3. Number of Contributors and Pensioners

| 2005/06 | | | | 2006/07 | | |
|-------------------|--------------|------------------------|------------------|-------------------|--------------|------------------------|
| Contri- butors | Pensioners | Deferred Pensioners | | Contri- butors | Pensioners | Deferred Pensioners |
| 9,228 | 3,952 | 4,005 | Highland Council | 9,265 | 4,100 | 4,429 |
| 2,540 | 999 | 1,017 | Scheduled Bodies | 2,730 | 1,042 | 1,114 |
| 419 | 151 | 252 | Admitted Bodies | 436 | 150 | 274 |
| 12,187 | 5,102 | 5,274 | Total | 12,431 | 5,292 | 5,817 |

4. Administration Costs

| 2005/2006 £'000 | | 2006/2007 £'000 |
|---------------------|---------------------------------------|---------------------|
| | <u>Investment Management Services</u> | |
| 87 | Actuarial Fees | (2) |
| 10 | Performance Measurement | 11 |
| 87 | Custodial Fees | 99 |
| 1,481 | Manager Fees | 1,715 |
| 2 | General Fees | 49 |
| <u>1,667</u> | | <u>1,872</u> |
| | <u>Internal Administration</u> | |
| 671 | Highland Council Recharge | 709 |
| 19 | Other Administration | 11 |
| <u>690</u> | | <u>720</u> |
| <u>2,357</u> | Total | <u>2,592</u> |

The Credit for actuarial fees represents an adjustment for a 2005/06 transaction. The actuarial fees paid in respect of 2006/07 amounted to £21k.

PENSION FUND

5. Valuation of Investments

The Fund's investments which are listed on recognised Stock Exchanges, are valued on the basis of market convention which is either last traded or middle market price. Where representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the Custodian.

Assets and liabilities in foreign currency are translated into sterling at the closing rates of exchange on the last working day of the financial year.

| Classifications | Market Value at 1 April 06 £'000 | Purchases at Cost £'000 | Sales Proceeds £'000 | Change in Market Value £'000 | Market Value at 31 March 07 £'000 |
|--------------------------------|--|-------------------------------|----------------------------|------------------------------------|--|
| Equities | 382,482 | 108,756 | (87,908) | 13,349 | 416,679 |
| Unitised Insurance Policies | 140,128 | 3,200 | - | 12,509 | 155,837 |
| Unit Trusts (Property) | 77,825 | 16,345 | (12,211) | 14,748 | 96,707 |
| Unit Trusts (Other) | 127,111 | 19,477 | (6,442) | (1,281) | 138,865 |
| Cash Deposits | 10,846 | - | - | (2,231) | 8,615 |
| Other Investment balances | 411 | - | - | 1,153 | 1,564 |
| Total | 738,803 | 147,778 | (106,561) | 38,247 | 818,267 |
| Net Purchases | | | 41,217 | | |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

6. Performance of the Fund

In the year to 31 March 2007 the Fund's return on investments was 8.4%, which marginally underperformed its customised benchmark of 8.6%. The principal factors which influenced this under-performance were weak returns from North America, Japanese and other Pacific equities.

7. Custodial Arrangements

Northern Trust Company is the custodian of all of the Fund's investments. With the exception of Japanese Government Bonds, which are held in the name of The Highland Council Pension Fund, all investments are held in omnibus accounts in the name of Northern Trust Company. However, Northern Trust's internal controls ensure that the Highland Council Pension Fund investments are clearly identifiable at all times.

The Custodians produce an annual report on their internal controls which is examined by KPMG LLP in accordance with the American Institute of Certified Public Accountants Statement on Auditing Standards (No70) SAS70 - Reports on the Processing of Transactions by Service Organisations. KPMG LLP approved the most recent report on 28 November 2006.

PENSION FUND

8. Tax Status of the Scheme

The Highland Council Pension Fund qualifies as an Inland Revenue 'exempt approved scheme'.

9. Funds under Management

| 2005/06 | | Manager Analysis | 2006/07 | |
|-----------------------|-----------------|---|-----------------------|-----------------|
| Market Value £'000 | % of Total Fund | | Market Value £'000 | % of Total Fund |
| 201,164 | 27.2% | Alliance Bernstein – Global Equity | 225,144 | 27.5% |
| 231,241 | 31.3% | Baillie Gifford – Global Equity | 247,675 | 30.3% |
| 87,127 | 11.8% | Fidelity – Bond Fund (see below analysis) | 91,453 | 11.2% |
| 140,131 | 19.0% | Legal and General – Managed Fund | 155,839 | 19.0% |
| 79,140 | 10.7% | Schroders – Property Fund | 98,156 | 12.0% |
| 738,803 | 100.0% | Combined Fund | 818,267 | 100.0% |

| 2005/06 | | Portfolio Distribution – (UK/Overseas) | 2006/07 | |
|----------------|-------------------|--|----------------|-------------------|
| UK £'000 | Overseas £'000 | | UK £'000 | Overseas £'000 |
| 188,796 | 193,686 | Equities | 204,111 | 212,569 |
| 140,128 | - | Unitised Insurance Policies | 155,837 | - |
| 77,825 | - | Unit Trusts (Property) | 89,978 | 6,726 |
| 94,084 | 33,027 | Unit Trusts (Other) | 123,886 | 14,981 |
| 10,846 | - | Cash Deposits | 8,615 | - |
| 411 | - | Other Investment balances | 1,564 | - |
| 512,090 | 226,713 | Total | 583,991 | 234,276 |

| 2005/06 | | Portfolio Distribution – (Quoted/Unquoted) | 2006/07 | |
|-----------------|-------------------|--|-----------------|-------------------|
| Quoted £'000 | Unquoted £'000 | | Quoted £'000 | Unquoted £'000 |
| 382,482 | - | Equities | 416,680 | - |
| 140,128 | - | Unitised Insurance Policies | 155,837 | - |
| 77,825 | - | Unit Trusts (Property) | 96,704 | - |
| 127,111 | - | Unit Trusts (Other) | 138,867 | - |
| - | 10,846 | Cash Deposits | - | 8,615 |
| 411 | - | Other Investment balances | 1,564 | - |
| 727,957 | 10,846 | Total | 809,652 | 8,615 |

PENSION FUND

The following is an analysis of the investments managed by Fidelity which form part of 'Unit Trusts (Other)'.

| 2005/06 | | Fidelity Investments | 2006/07 | |
|---------------|-------------------|--------------------------------|----------------------|-------------------|
| UK £'000 | Overseas £'000 | | UK £'000 | Overseas £'000 |
| 12,987 | - | Fixed Interest (Public Sector) | 13,716 | - |
| 39,083 | 22,038 | Fixed Interest (Other) | 64,335 | - |
| 13,123 | - | Index Linked Securities | 13,697 | - |
| <u>65,193</u> | <u>22,038</u> | Total | <u>91,748</u> | <u>-</u> |

10. Statement of Investment Principles & Funding Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 1999 places a requirement on the administering authorities of the Local Government Pension Scheme (LGPS) to prepare, maintain and publish a Statement of Investment Principles. The Statement is published and available on the Highland Council's website at:

<http://www.highland.gov.uk/yourcouncil/finance/pensions.htm>

A Funding Strategy Statement, which summarises the Fund's approach to funding liabilities, has been prepared in accordance with Regulation 75A(1) of the Local Government Pension Scheme (Scotland) Regulations 1998 (the Regulations) as amended by the Local Government Pension Scheme (Scotland) Amendment Regulations 2005. The Statement describes the strategy of the Highland Council acting in its capacity of Administering Authority for the funding of the Highland Council Pension Fund. The Statement is published and available on the Highland Council's website at:

<http://www.highland.gov.uk/yourcouncil/finance/pensions.htm>

11 Liabilities/Post Balance Sheet Events

There are no contingent liabilities or post balance sheet events disclosed in the Accounts.

12. Stock Lending

As at 31 March 2007, no stock was released to a third party under a securities lending agreement.

13. Scheduled and Admitted Bodies as at 31 March 2007

Administering Authority

Highland Council (also Scheduled Body)

Scheduled Bodies

Comhairle Nan Eilean Siar

Highland and Western Isles Valuation Joint Board

Highland & Islands Fire Board

Highlands of Scotland Tourist Board

Highlands & Islands Transport Partnership

Inverness College

Lews Castle College

Northern Joint Police Board

The Highland Council

The North Highland College

Western Isles Tourist Board

PENSION FUND

Admitted Bodies

Bord Na Gaidhlig
 Caledonia Community Leisure Ltd
 Careers Scotland
 Cromarty Firth Port Authority
 Eden Court Theatre
 Golf Highland
 Hebridean Housing Partnership
 HIE Innse Gall
 HIE Inverness & East Highland
 HIE Moray
 HIE Skye & Wester Ross
 Highland Blindcraft
 Highland Opportunity Ltd

Highlands and Islands Structural Funds Partnership
 Inverness Harbour Trust
 Lochaber Enterprise Ltd
 Mitie PFI Ltd
 Richard Irvin & Sons
 Stoneyhill Waste Management Ltd
 Stornoway Port Authority
 Torvean Golf Club
 University of the Highlands and Islands
 Vacman Limited
 Visual Impairment Services Highland

14. Additional Voluntary Contributions (AVCs)

The AVC facility is provided by the Prudential Assurance Company Limited and is a money purchase arrangement where members have the choice to invest in a range of low, medium and high risk investment funds. In accordance with regulation 5 [2] [C] of the Pension Scheme (Management and Investment of Funds) Regulations 1998 [S1 1998 No. 1831]. These figures do not form part of the accounts of the Pension Fund but are stated for information only.

| 2005/06 | | 2006/07 |
|--------------|-------------------------------|--------------|
| £'000 | | £'000 |
| 7,022 | Opening Value | 7,617 |
| 700 | Contributions Invested | 907 |
| 423 | Interest, Bonuses & Transfers | 605 |
| (528) | Sales of Investments | (871) |
| <u>7,617</u> | | <u>8,258</u> |

15. Income Analysis

| Combined Funds | | Combined Funds |
|----------------|--------------------------------|----------------|
| 31 March 2006 | | 31 March 2007 |
| £'000 | | £'000 |
| 9,089 | Dividend from Equities | 11,707 |
| 5,925 | Income from pooled Investments | 6,873 |
| 264 | Interest on cash deposits | 336 |
| 227 | Other Investments | 234 |
| <u>15,505</u> | | <u>19,150</u> |

16. Tax Claim

During 2006/07 The Highland Council joined a group litigation to recover tax credits on overseas dividends and foreign income dividends. The estimated claim, gross of fees, is £1.6m.

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COMMON GOOD FUNDS

AND

TRUST FUNDS ACCOUNTS

TRUST FUNDS

The presentation of the Trust Fund Accounts has been amended to separately identify Charitable Trust Funds i.e. those which are on the Scottish Charity Register maintained by the Office of the Scottish Charity Regulator (OSCR). Charitable Trust Funds were previously included in either Educational Trust Funds or Other Trust Funds. The change in presentation has been made to ensure adequate disclosure in line with CIPFA/LASAAC and OSCR recommendations.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

| 2005/06 | | | | 2006/07 | | |
|---------------------------------------|--|-------------------------|--------------------------|---------------------------------------|--|-------------------------|
| Charitable Trust Funds £'000 | Educational Trust Funds £'000 | Other Funds £'000 | | Charitable Trust Funds £'000 | Educational Trust Funds £'000 | Other Funds £'000 |
| 9 | 133 | 143 | Income | 11 | 151 | 164 |
| (2) | (78) | (176) | Expenditure | (2) | (68) | (105) |
| 7 | 55 | (33) | Surplus/(deficit) | 9 | 83 | 59 |

BALANCE SHEET AS AT 31 MARCH 2007

| 31 March 2006 | | | | 31 March 2007 | | |
|---------------------------------------|--|-------------------------|---------------------------------|---------------------------------------|--|-------------------------|
| Charitable Trust Funds £'000 | Educational Trust Funds £'000 | Other Funds £'000 | | Charitable Trust Funds £'000 | Educational Trust Funds £'000 | Other Funds £'000 |
| 23 | 172 | 996 | Assets: | | | |
| | | | Investments at Cost | 23 | 172 | 1,076 |
| | | | Current Assets | | | |
| 147 | 2,003 | 867 | Loans Fund Deposit | 156 | 2,081 | 923 |
| | - | 24 | Sundry Debtors | - | - | 27 |
| 147 | 2,003 | 891 | | 156 | 2,081 | 950 |
| | | | Less Current Liabilities | | | |
| | (5) | - | Sundry Creditors | - | - | - |
| 147 | 1,998 | 891 | Net Current Assets | 156 | 2,081 | 950 |
| 170 | 2,170 | 1,887 | Net Assets | 179 | 2,253 | 2,026 |
| | | | Financed by: | | | |
| 89 | 1,822 | 572 | Capital Funds | 89 | 1,822 | 652 |
| 81 | 348 | 1,315 | Revenue Funds | 90 | 431 | 1,374 |
| 170 | 2,170 | 1,887 | Total Funds | 179 | 2,253 | 2,026 |

TRUST FUNDS

1. Charitable Trusts

The Council administers eighty registered Scottish Charities which are for the benefit of various specific causes. At 31 March 2007 the balances and investments held are as follows:

| 31 March 2006 | | | 31 March 2007 | | |
|-------------------|-----------------------------|---------------------------|--|----------------------|-----------------------------|
| Fund Balance £ | Investments at cost £ | Scottish Charity No | Charity | Fund Balance £ | Investments at cost £ |
| - | - | 01768 | Beatrice Oilfield Trust - Nairn | - | - |
| - | - | 03192 | John Rutherford Trust for Poor of Kildonan | - | - |
| - | - | 04447 | John Robert Campbell Bequest for the Poor of Parish of Lairg | - | - |
| 543 | 500 | 04881 | Miss E Kemp bequest for Poor of Rosemarkie | 563 | 500 |
| 787 | 155 | 05071 | Grantown War Memorial Fund | 819 | 155 |
| 9,029 | - | 07158 | West Coast of Ross-Shire (Mainland) Distress Fund | 9,148 | - |
| 123 | 101 | 08916 | John Martin Trust to give Christmas dinner to the poor of Invergordon | 127 | 101 |
| 77 | - | 08950 | McCulloch Bequest for the Poor of Durness | 76 | - |
| 724 | - | 09516 | John Couper Bequest for Poor of Helmsdale | 735 | - |
| 572 | - | 10505 | Miss Margaret A Ross Charity Fund | 577 | - |
| 695 | 39 | 10813 | Coull Mortification | 726 | 39 |
| - | - | 11444 | James Asher's Charitable Trust | - | - |
| - | - | 12300 | William Murray Morgan Caithness Village Amenities Fund | - | - |
| 3,884 | 944 | 12410 | Donald Cameron of Erracht Bequest for Poor of Kilmallie | 4,063 | 944 |
| 2,251 | - | 12475 | John Rose Troup Charitable Trust | 2,268 | - |
| 585 | - | 12682 | Grigor Bequest for Confirmed Invalids | 600 | - |
| 2,082 | 717 | 13277 | Duncan Cameron Trust for Poor of Abernethy | 2,169 | 717 |
| 2,759 | - | 16232 | Grigor Bequest for Poor of Parish of Cawdor | 2,807 | - |

TRUST FUNDS

| 31 March 2006 | | | 31 March 2007 | | |
|----------------------|-----------------------------|---------------------------|---|----------------------|-----------------------------|
| Fund Balance £ | Investments at cost £ | Scottish Charity No | Charity | Fund Balance £ | Investments at cost £ |
| 110 | - | 16326 | Miss Margaret A MacLeod Bequest | 115 | - |
| - | - | 16486 | Hugh Wilson Trust | - | - |
| 15,410 | - | 17126 | Highland Heart Fund | 16,047 | - |
| - | - | 18287 | Miss Magdalene Duff Fraser Mortification | - | - |
| - | - | 18296 | Jonathan Anderson Mortification for Poor | - | - |
| 628 | 589 | 18297 | Frederick Klein Mortification | 657 | 589 |
| - | - | 18298 | Robert Fraser Mortification | - | - |
| - | - | 18299 | Thomas Fraser Mortification | - | - |
| - | - | 18300 | Evan Baillie Mortification | - | - |
| - | - | 18301 | John Burnett Mortification | - | - |
| - | - | 18302 | Mrs Isabella Gollan Mortification | - | - |
| - | - | 18303 | Mrs Martha Gibson Mortification | - | - |
| - | - | 18305 | Robert Smith Mortification | - | - |
| 532 | 505 | 18306 | Mrs Jane Masson Bequest | 551 | 505 |
| - | - | 18307 | Dr John Mackintosh Bequest | - | - |
| - | - | 18308 | William Macgregor Bequest | - | - |
| 984 | 1,009 | 18309 | F W Grant Bequest | 949 | 1,009 |
| - | - | 18310 | William Galloway Macdonald Bequest | - | - |
| - | - | 18311 | George Melvin Bequest | - | - |
| - | - | 18312 | Louis Ormond Fyvie Bequest | - | - |
| - | - | 18313 | George Wilson Barron Bequest | - | - |
| 795 | - | 18723 | William Davidson Bequest | 829 | - |

TRUST FUNDS

| 31 March 2006 | | | 31 March 2007 | | |
|----------------------|-----------------------------|---------------------------|---|----------------------|-----------------------------|
| Fund Balance £ | Investments at cost £ | Scottish Charity No | Charity | Fund Balance £ | Investments at cost £ |
| 2,570 | 1,493 | 18724 | Miss Adeleine Florence Henderson Bequests | 2,669 | 1,493 |
| 982 | 800 | 18725 | William Murray Bequest for Poor of Wick | 1,018 | 800 |
| 13,255 | 283 | 18726 | William Murray Bequest for Wick Library | 13,825 | 283 |
| 857 | 442 | 18727 | Murray (Olig) Bequest | 891 | 442 |
| 524 | 359 | 18728 | Oswald (Dunnet) Bequest | 546 | 359 |
| 2,054 | 1,050 | 18729 | Davidson - Cumming Bequest | 2,134 | 1,050 |
| 202 | 105 | 18730 | Oswald (Bower) Mortification | 210 | 105 |
| 8,299 | 2,834 | 18731 | Alexander Wares Bequest for Poor | 8,635 | 2,834 |
| 12,733 | 2,350 | 18732 | George Swanson Trust | 12,994 | 2,350 |
| 1,375 | 503 | 18733 | James Cormack Bequest | 1,430 | 503 |
| 724 | - | 18734 | John Sutherland Poor Cooper's Fund | 756 | - |
| 309 | 137 | 18735 | John Jacobus Harper Trust | 321 | 137 |
| 143 | - | 18736 | Thomas L Rettie Bequest for Poor | 149 | - |
| 63 | - | 18737 | Jane Cormack Bequest | 66 | - |
| 252 | - | 18738 | John Sutherland (Fish Curer) Poor Fund | 194 | - |
| 1,780 | - | 18739 | Sir Josiah H Symon Poor Fund | 1,857 | - |
| - | - | 18740 | John Miller Bequest | - | - |
| 681 | 300 | 18995 | Miss L E M Rose Bequest | 708 | 300 |
| 904 | 800 | 18997 | Nairnshire Boot Fund | 794 | 800 |
| 12,105 | 5,000 | 18999 | Miss Emma M Fraser Bequest for the Poor of Nairn | 12,364 | 5,000 |
| 2,273 | - | 19557 | Knockie Trust Fund | 2,371 | - |
| 206 | 95 | 19558 | Duncan MacBean Bequest | 214 | 95 |
| 587 | 90 | 19559 | Kennedy Trust for Poor | 611 | 90 |
| 325 | 300 | 19561 | John Fraser Bequest | 337 | 300 |

TRUST FUNDS

| 31 March 2006 | | | | 31 March 2007 | | |
|----------------------|-----------------------------|---------------------------|---|----------------------|-----------------------------|--|
| Fund Balance £ | Investments at cost £ | Scottish Charity No | Charity | Fund Balance £ | Investments at cost £ | |
| 203 | - | 19562 | Hugh Leslie Bequest | 212 | - | |
| 149 | 12 | 19563 | George Murray Senior Coal Fund | 155 | 12 | |
| 424 | - | 19564 | David Thomson Bequest for poor | 442 | - | |
| 424 | - | 19565 | Alex Thomson Bequest for poor | 442 | - | |
| 260 | - | 19566 | David Thomson Bequest for Ex- Seaforth Highlanders | 271 | - | |
| 117 | 46 | 19567 | Ronald Ross Bequest | 122 | 46 | |
| 418 | - | 19568 | D Duff Bequest | 436 | - | |
| - | - | 19569 | George MacLeod Bequest | 214 | - | |
| 264 | 19 | 19570 | Tain War Memorial Fund | 275 | 19 | |
| 1,421 | 500 | 19694 | Dr Donald Grant Legacy | 1,512 | 500 | |
| 410 | 200 | 19695 | George Harvey Trust | 428 | 200 | |
| 16,551 | 1,171 | 19696 | Miss Margaret Charlotte Stuart Legacy | 19,868 | 1,171 | |
| - | - | 19697 | Earl of Seafield Bequest for Poor in Inverallan and Advie Portions of Cromdale Parish | - | - | |
| - | - | 25079 | Highland Council Charitable Trusts | - | - | |
| 34,767 | - | 28254 | Gairloch High School Howard Doris Fund | 36,295 | - | |
| 9,204 | - | 28500 | Highland Regional Children's Panel 20th Anniversary Trust Fund | 9,601 | - | |
| <u>170,385</u> | <u>23,448</u> | | | <u>179,193</u> | <u>23,448</u> | |

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TRUST FUNDS

2. Educational Trust Funds

The Council administers 47 Educational Trust funds which are for the benefit of the pupils educated within the various schools or specific areas.

| As at 31 March 2006 | | | As at 31 March 2007 | | |
|---------------------|---------------------|----------------------|---------------------|---------------------|-----------------------------|
| Fund Balance | Cost of Investments | Value of Investments | Fund Balance | Cost of Investments | Market Value of Investments |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | | | | |
| 114 | 29 | 28 | 126 | 29 | 29 |
| 797 | - | - | 831 | - | - |
| 20 | - | - | 20 | - | - |
| 30 | - | - | 30 | - | - |
| 226 | 46 | 300 | 226 | 45 | 326 |
| 180 | 52 | 389 | 188 | 52 | 755 |
| 114 | - | - | 119 | - | - |
| 111 | - | - | 116 | - | - |
| 15 | - | - | 14 | - | - |
| 398 | 38 | 613 | 420 | 38 | 589 |
| 104 | - | - | 103 | - | - |
| 61 | 7 | 13 | 60 | 8 | 22 |
| 2,170 | 172 | 1,343 | 2,253 | 172 | 1,721 |

TRUST FUNDS

3. Other Trust Funds

The Council administer Other Trust funds which are for the benefit of various specific causes and are administered in accordance with the terms of the individual bequests.

| As at 31 March 2006 | | | As at 31 March 2007 | | |
|---------------------|---------------------|----------------------|---------------------|---------------------|-----------------------------|
| Fund Balance | Cost of Investments | Value of Investments | Fund Balance | Cost of Investments | Market Value of Investments |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 711 | 662 | 1,036 | 801 | 724 | 1,114 |
| | | | | | |
| 286 | 265 | 427 | 312 | 283 | 451 |
| | | | | | |
| 27 | 32 | 53 | 27 | 32 | 55 |
| | | | | | |
| 227 | - | - | 214 | - | - |
| | | | | | |
| 136 | - | - | 142 | - | - |
| | | | | | |
| - | 2 | 5 | 6 | 2 | 4 |
| | | | | | |
| 211 | 20 | 17 | 219 | 20 | 16 |
| | | | | | |
| 65 | 2 | 2 | 76 | 2 | 2 |
| | | | | | |
| 53 | 3 | 3 | 57 | 3 | 2 |
| | | | | | |
| 143 | 9 | 8 | 144 | 9 | 7 |
| | | | | | |
| 4 | 1 | 1 | 4 | 1 | 1 |
| | | | | | |
| 24 | - | - | 24 | - | - |
| | | | | | |
| 1,887 | 996 | 1,552 | 2,026 | 1,076 | 1,652 |
| | | | | | |
| | | | Total | | |

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COMMON GOOD FUNDS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

| 2005/06 | | 2006/07 |
|---------|-------------|---------|
| £'000 | | £'000 |
| 1,833 | Income | 2,119 |
| (1,799) | Expenditure | (1,700) |
| 34 | Surplus | 419 |
| | | |

BALANCE SHEET AS AT 31 MARCH 2007

| 2005/06 | | 2006/07 |
|---------|---------------------------------|---------|
| £'000 | | £'000 |
| | Fixed Assets | |
| 15,973 | Heritable Property | 35,791 |
| 4,029 | Investments | 4,484 |
| 20,002 | | 40,275 |
| | Current Assets | |
| 1,616 | Loans Fund Deposit | 1,609 |
| 2 | Sundry Debtors | 4 |
| 1,618 | | 1,613 |
| | Current Liabilities | |
| 54 | Sundry Creditors | 22 |
| 3 | Loans | - |
| 57 | | 22 |
| 1,561 | Net Current Assets | 1,591 |
| 21,563 | Net Assets | 41,866 |
| | Financed by: | |
| 12,721 | Fixed Asset Restatement Account | 32,149 |
| 1,924 | Capital Funds | 2,380 |
| 6,918 | Revenue Funds | 7,337 |
| 21,563 | | 41,866 |

COMMON GOOD FUNDS

NOTES TO THE COMMON GOOD ACCOUNTS

1. The council administers eight Common Good funds which are for the benefit of the resident of specific former burghs.
2. At 31 March 2007, the balances held, valuation of fixed assets and cost and value of investments for each Common Good Fund were as follows:

| Fund Balance | 31 March 2006 | | | | | 31 March 2007 | | | |
|-----------------|-----------------|--------------|--------------|-----------------|--------------|-----------------|--------------|--------------|--|
| | Fixed Assets | Investments | | Fund Balance | | Fixed Assets | Investments | | |
| | | Cost | Value | | | | Cost | Value | |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | | |
| 7,085 | 15,233 | 4,023 | 6,073 | Inverness | 7,891 | 19,818 | 4,478 | 6,657 | |
| 493 | 306 | 6 | 6 | Nairn | 443 | 15,306 | 6 | 6 | |
| 734 | 359 | - | - | Tain | 815 | 359 | - | - | |
| 182 | 55 | - | - | Dornoch | 203 | 55 | - | - | |
| 149 | 8 | - | - | Dingwall | 153 | 128 | - | - | |
| 119 | 11 | - | - | Fortrose | 123 | - | - | - | |
| 28 | - | - | - | Cromarty | 34 | 49 | - | - | |
| 52 | 1 | - | - | Invergordon | 55 | 76 | - | - | |
| 8,842 | 15,973 | 4,029 | 6,079 | Total | 9,717 | 35,791 | 4,484 | 6,663 | |

3. Fixed Asset Valuations

John Clarke (MRICS), Head of Property, Property and Architectural Services, Highland Council carried out the asset valuations in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors. The effective date of the valuations is as at 1 April 2006, the next valuation will take place as at 1 April 2011.

4. Investment in Related Company

Tain Common Good Fund has an interest in Highland Fresh Mussels Ltd, a Company Limited by Guarantee which operates and manages the Tain Mussel Fishery. The liability of the Common Good Fund is limited to £1. The latest available audited results of the company were as follows:

| 2005 | | 2006 |
|----------|---|-----------------|
| £224,270 | Net assets as at 31 March | £263,437 |
| £76,066 | Profit before tax – Year ended 31 March | £43,672 |
| £61,300 | Profit after tax – year ended 31 March | £39,167 |

Company accounts are available on request from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX

COMMON GOOD FUNDS

5. Inverness Common Good - Investments

The Inverness Common Good Fund has holdings, managed by a fund manager, in various types of investments as detailed below:-

| As at 31 March 2006 | | | As at 31 March 2007 | |
|------------------------|--------------|--------------------------------|------------------------|---------------------|
| Units Held | | | Units Held | |
| Cost | Value | | Cost | Value |
| £'000 | £'000 | | £'000 | £'000 |
| 510 | 535 | United Kingdom Fixed Interest | 434 | 448 |
| 107 | 116 | United Kingdom Index Linked | 107 | 116 |
| 1,693 | 2,865 | United Kingdom Equities | 2,243 | 3,577 |
| 345 | 528 | North America Equities | 345 | 550 |
| 245 | 406 | Continental Europe Equities | 248 | 443 |
| 130 | 210 | Japan Equities | 130 | 176 |
| 133 | 359 | Far East Equities | 121 | 326 |
| 135 | 276 | Emerging Markets Equities | 124 | 248 |
| 121 | 177 | United Kingdom Alternative | 155 | 175 |
| - | - | Continental Europe Alternative | 88 | 105 |
| 100 | 97 | Other International Equities | 20 | 20 |
| 504 | 504 | United Kingdom Cash | 463 | 463 |
| <u>4,023</u> | <u>6,073</u> | Total | <u>4,478</u> | <u>6,647</u> |

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STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required to:

- (i) make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In the Highland Council that officer is the Director of Finance;
- (ii) manage its affairs to secure economy, efficiency and effective use of resources and safeguard its assets.

The Chief Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Director of Finance of the Highland Council has:-

- (i) selected suitable accounting policies and then applied them consistently,
- (ii) made judgements and estimates that were reasonable and prudent, and
- (iii) complied with the SORP.

The Director of Finance has also:-

- (i) kept proper accounting records which were up to date, and
- (ii) taken reasonable steps for the prevention and detection of fraud and other irregularities

I, the Director of Finance of Highland Council, as Chief Financial Officer state that the Accounts for the year ended 31 March 2007 present fairly the financial position of the authority at that date and its income and expenditure for the year then ended.

Alan Geddes, Director of Finance

Date: 28 June 2007

GROUP ACCOUNTS

GROUP ACCOUNTS

INTRODUCTION

The Group comprises of the Highland Council; its subsidiaries (Inverness Common Good Fund and Nairn Common Good Fund), and its associates. The associates are the Council's share (based on the proportion of Highland Council Members) of the Northern Joint Police Board; the Highland & Islands Fire Board and the Highland & Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership.

The Group Accounts have been prepared in accordance with UK GAAP.

Copies of the accounts of the Highlands and Islands Fire Board, Northern Joint Police Board, Highlands and Western Isles Valuation Joint Board and Highlands and Islands Transport Partnership are available from the Director of Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

ACCOUNTING POLICIES

The Accounting Policies used to prepare the Group Accounts are those detailed on pages 17-23 except for the departures stated below.

Basis of Consolidation

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the Group Accounts, associates are accounted for using the equity method.

The Group includes the Highland Council, its subsidiaries and associates as listed below:

Subsidiaries

Highland Council has a 100% interest in both the Inverness Common Good and Nairn Common Good Funds.

Associates

Highland Council has the percentage interests in the following associates:

- Highland and Islands Fire Board – 66.7%
- Northern Joint Police Board – 66.7%
- Highland and Western Isles Valuation Joint Board – 80%
- Highlands and Islands Transport Partnership – 27.3%

Investment in Related Companies Which Have not Been Consolidated

The Highland Council has investments in the following companies which have not been consolidated on the grounds of materiality:

- Loch Ness Highland Horizons (LNHH)
- Highland Opportunity Limited (HOL)
- Highland 2007 Limited

GROUP INCOME AND EXPENDITURE ACCOUNT

| 2005/06 (Restated) Net £'000 | | 2006/07 Gross £'000 | 2006/07 Income £'000 | 2006/07 Net £'000 |
|---------------------------------------|---|------------------------------------|-------------------------------------|----------------------------------|
| | Council Housing | | | |
| (9,901) | (Housing Revenue Account) | 32,895 | (42,695) | (9,800) |
| 21,453 | Cultural & Related Services | 32,333 | (8,619) | 23,714 |
| 188,826 | Education Services | 217,608 | (35,064) | 182,544 |
| 26,535 | Environmental Services | 34,163 | (4,872) | 29,291 |
| (2,398) | Other Housing – Housing Services | 60,021 | (57,788) | 2,233 |
| 4,497 | Planning & Development Services | 13,347 | (9,087) | 4,260 |
| 32,777 | Roads & Transport Services | 64,958 | (34,613) | 30,345 |
| 86,102 | Social Work Services | 111,575 | (23,666) | 87,909 |
| 10,253 | Central Services to the Public | 59,795 | (47,132) | 12,663 |
| 10,160 | Corporate and Democratic Core | 11,239 | (303) | 10,936 |
| 3,320 | Non Distributed Costs | (3,614) | - | (3,614) |
| | NET COST OF GENERAL FUND | | | |
| 371,624 | SERVICES | 634,320 | (263,839) | 370,481 |
| 165 | Share of Operating Result Subsidiary | 1,605 | (1,668) | (63) |
| 27,311 | Share of Operating Result of Associates | 45,566 | (19,848) | 25,718 |
| 399,100 | NET COST OF SERVICES | 681,491 | (285,355) | 396,136 |
| 1,706 | (Gain)/Loss on sale of Fixed Assets | | | 273 |
| (526) | (Surplus)/Deficit on Trading Undertakings | | | (111) |
| 31,975 | Interest payable and similar charges | | | 31,996 |
| 1,571 | Share of interest payable and similar charges | | | 1,369 |
| (2,657) | of associates | | | (2,925) |
| (183) | Interest and Investment Income | | | (286) |
| | Share of Interest & Investment Income of | | | |
| | Associates | | | (286) |
| 1,699 | Pension interest cost and expected return on | | | (3,669) |
| | pension assets | | | |
| 12,410 | Share of Pension interest cost and expected | | | 13,099 |
| | return in pension costs of Associates | | | |
| 445,095 | NET EXPENDITURE BEFORE | | | 435,882 |
| | RESERVES MOVEMENTS | | | |
| (95,411) | Council Tax | | | (100,804) |
| (266,751) | Revenue Support Grant | | | (279,695) |
| (77,964) | Non-Domestic Rates | | | (77,938) |
| 4,969 | (SURPLUS)/DEFICIT FOR THE YEAR | | | (22,555) |

RECONCILIATION OF THE SINGLE ENTITY (SURPLUS)/ DEFICIT FOR THE YEAR TO THE GROUP (SURPLUS)/DEFICIT

| 2005/06 Net | | 2006/07 Net |
|----------------|--|----------------|
| 5,126 | NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT | (22,622) |
| - | Less: Subsidiary and associate dividend income and any other distributions from group entities included in the single entity (surplus)/deficit on the Income and Expenditure Account | - |
| | Add: (surplus)/deficit arising from other entities included in the Group Accounts analysed into the amounts attributable to: | |
| (45) | Subsidiaries | (301) |
| (111) | Associates | 368 |
| 4,970 | Group Account (Surplus)/Deficit for the Year | (22,555) |
| | Net additional amount required by statute and non-statutory proper accounting practices to be credited to the General Fund Balance for the year – per individual accounts | |
| 1,739 | Highland and Islands Fire Board | 3,368 |
| 12,667 | Northern Joint Police Board | 13,428 |
| 54 | Highlands and Western Isles Valuation Joint Board | (102) |
| 14,459 | | 16,694 |
| 19,429 | Net Income and Expenditure Account (Surplus)/Deficit | (5,861) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| 2005/06 Net | | 2006/07 Net £'000 |
|------------------|---|-------------------------|
| 19,429 | NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT | (5,861) |
| (339,844) | Surplus arising on the revaluation of fixed assets | (22,208) |
| (22,065) | Actuarial (gains)/losses on pension fund assets and liabilities | (56,104) |
| - | Any other gains or losses recognised in the STRGL | (493) |
| (5,617) | Net movements not attributable to the General Fund | 165 |
| (348,097) | Total recognised gains for the year | (84,501) |

GROUP BALANCE SHEET AS AT 31 MARCH 2007

| 31 March 2006 (Restated) £'000 | | 31 March 2007 £'000 | £'000 |
|--------------------------------------|---|------------------------|------------------|
| | <u>FIXED ASSETS</u> | | |
| | Operational Assets | | |
| 522,201 | Council Dwellings | 510,074 | |
| 619,802 | Other Land and Buildings | 651,907 | |
| 8,109 | Vehicles, Plant, Furniture and Equipment | 9,568 | |
| 208,363 | Infrastructure Assets | 222,374 | |
| 872 | Community Assets | 919 | |
| 1,359,347 | Total Operational Assets | | 1,394,842 |
| | Non Operational Assets | | |
| 26,660 | Investments | 27,122 | |
| 4,165 | Surplus Assets Awaiting Disposal | 4,012 | |
| 2,575 | Assets Under Construction | 5,108 | |
| 33,400 | Total Non Operational Assets | | 36,242 |
| 1,392,747 | Total Fixed Assets | | 1,431,084 |
| (256,915) | Investments in Associates and Joint Ventures | (250,547) | |
| 2,330 | Long term Investments | 2,395 | |
| 44,649 | Long term Debtors (net of Provisions) | 43,059 | |
| 47,594 | Deferred premiums one early repayment of debt | 45,509 | |
| (162,342) | Total Long term Assets | | (159,584) |
| | <u>Current Assets</u> | | |
| 3,307 | Stock and Work in Progress | 3,903 | |
| 87,262 | Sundry Debtors | 91,214 | |
| (39,632) | Less Provisions | (40,864) | |
| 9,950 | Investments (for less than 1 year) | 59,401 | |
| 106 | Cash | 123 | |
| 60,993 | | | 113,777 |
| | <u>Less: Current Liabilities</u> | | |
| 22,729 | Borrowing repayable in less than one year | 23,898 | |
| 47,202 | Sundry Creditors | 80,539 | |
| 8,299 | Provisions | 5,740 | |
| 14,306 | Bank Overdraft | 3,889 | |
| 92,536 | | | 114,066 |
| (31,543) | Total Assets less Current Liabilities | | (289) |

GROUP BALANCE SHEET AS AT 31 MARCH 2007

| 31 March 2006 (Restated) £'000 | | 31 March 2007 £'000 | £'000 |
|--------------------------------------|---|------------------------|----------------|
| (31,543) | Total Assets less Current Liabilities | | (289) |
| | Less: | | |
| 557,695 | Borrowing repayable in more than one year | 579,529 | |
| 36,451 | Government Grants Deferred | 34,519 | |
| 24,697 | Capital Contributions Deferred | 39,682 | |
| 1,417 | Deferred discounts on early repayment of debt | 1,337 | |
| 127,290 | Defined Benefit Pension Scheme Liability | 80,331 | 735,398 |
| 451,312 | TOTAL ASSETS LESS LIABILITIES | | 535,813 |
| | FINANCED BY: | | |
| 634,444 | Fixed Asset Restatement Account | | 640,528 |
| 153,544 | Capital Financing Account | | 174,588 |
| 8,556 | Usable Capital Receipts Reserve | | 8,092 |
| (403,885) | Pension Reserve | | (359,495) |
| | Other Reserves | | |
| 1,278 | Renewal And Repair Fund | | 1,285 |
| 18,367 | Capital Fund | | 22,446 |
| - | Insurance Fund | | 540 |
| | Revenue Account Balances | | |
| 29,598 | General Fund | | 38,936 |
| 9,410 | Housing Revenue Account | | 8,893 |
| 451,312 | TOTAL NET WORTH | | 535,813 |

Alan Geddes, Director of Finance
28 June 2007

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GROUP CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

| 2005/2006 £'000 | | 2006/2007 £'000 | £'000 |
|--------------------|--|--------------------|-----------------|
| | REVENUE ACTIVITIES | | |
| | Cash Outflows | | |
| 264,749 | Cash Paid to and on behalf of employees | 327,330 | |
| 340,894 | Other operating cash payments | 263,601 | |
| 76,075 | National non-domestic rates payments to national pool | 86,019 | |
| 12,135 | Housing Benefit paid out | 23,592 | |
| 693,853 | Total Outflows | 700,542 | |
| | Cash Inflows | | |
| (19,015) | Rents (after rebates) | (25,015) | |
| (103,180) | Council tax receipts | (114,250) | |
| (75,114) | Non-domestic rates receipts | (84,462) | |
| (78,428) | National non-domestic rates receipts from the national pool | (78,394) | |
| (266,751) | Revenue support grant | (279,695) | |
| (22,587) | DWP grants for benefits | (23,283) | |
| (35,771) | Other government grants | (23,683) | |
| (76,027) | Cash received for good and services | (77,100) | |
| (66,522) | Other operating cash receipts | (77,196) | |
| (743,395) | Total Inflows | (783,078) | |
| (49,542) | Net Cash Outflow / (Inflow) from Revenue Activities | | (82,536) |
| | Cash Outflows | | |
| 30,294 | Interest Paid | 21,150 | |
| 30,294 | Total Outflows | 21,150 | |
| | Cash Inflows | | |
| (2,274) | Investment Income and Interest Received | (3,080) | |
| (2,274) | Total Inflows | (3,080) | |
| 28,020 | Net Cash Outflow / (Inflow) from Return on Investments and Servicing of Finance | | 18,070 |
| | CAPITAL ACTIVITIES | | |
| | Cash Outflows | | |
| 58,324 | Purchase of Fixed Assets | 62,418 | |
| 58,324 | Total Outflows | 62,418 | |
| | Cash Inflows | | |
| (18,482) | Sale of Fixed Assets | (14,151) | |
| (14,364) | Capital Grants Received | (4,836) | |
| (13,465) | Other Capital Cash Receipts | (10,804) | |
| (46,311) | Total Inflows | (29,791) | |
| 12,013 | Net Cash Outflow / (Inflow) on Capital Activities | | 32,627 |

GROUP CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

| 2005/2006 £'000 | | 2006/2007 £'000 | 2006/2007 £'000 |
|--------------------|---|--------------------|--------------------|
| (9,509) | Net Cash Outflow / (Inflow) before Financing | | (31,839) |
| | MANAGEMENT OF LIQUID RESOURCES | | |
| 610 | Net Increase / (decrease) in short term deposits | 49,451 | |
| 5,169 | Net Increase / (decrease) in other liquid resources | (2,960) | |
| <u>5,779</u> | | <u> </u> | 46,491 |
| | FINANCING | | |
| | Cash Outflows | | |
| 234,217 | Repayments of amounts borrowed | 353,939 | |
| (1,776) | Repayments of Premiums and Discounts | (2,005) | |
| <u>232,441</u> | Total Outflows | <u>351,934</u> | |
| | Cash Inflows | | |
| (23,216) | New loans raised | (213,249) | |
| (210,184) | New short term loans raised | (163,771) | |
| <u>(233,400)</u> | Total Inflows | <u>(377,020)</u> | |
| <u>(959)</u> | Net Cash Outflow / (Inflow) from Financing | | (25,086) |
| <u>(4,689)</u> | Net (Increase)/ Decrease in cash | | (10,434) |

NOTES TO THE GROUP ACCOUNTS

1. Internal trading has been eliminated between Highland Council and its subsidiaries.
- 2.. The net expenditure of the associate (Highland and Western Isles Valuation Joint Board) is fully funded by constituent authorities. The net impact on the Group Income and Expenditure Account of consolidating this associate is zero.
3. The associates' balance sheets show net liabilities as at 31 March 2007 therefore this adjustment is a credit. The net liabilities in the Group Balance Sheet are as a result of the full application of FRS 17.
4. Borrowing between the Highland Council and its subsidiaries has been eliminated.
5. Borrowing between the Highland Council and its associates is as follows:

| 2005/06 | | 2006/07 |
|----------------|--|----------------|
| £'000 | | £'000 |
| | <u>Borrowing from Highland Council</u> | |
| | <u>Repayable in more than 12 months</u> | |
| 21,279 | Northern Joint Police Board | 20,371 |
| 16,020 | Highlands and Islands Fire Board | 14,518 |
| <u>37,299</u> | | <u>34,889</u> |
| | <u>Repayable in less than 12 months</u> | |
| 973 | Northern Joint Police Board | 909 |
| 1,525 | Highland and Islands Fire Board | 1,503 |
| - | Highlands and Islands Transport Partnership | 255 |
| <u>2,498</u> | | <u>2,667</u> |
| <u>39,797</u> | Total Borrowing from Highland Council by Associates | <u>37,556</u> |
| | <u>Borrowing from Associates</u> | |
| | <u>Repayable in less than 12 months</u> | |
| <u>8,025</u> | Highland Council | <u>9,342</u> |

NOTES TO THE GROUP ACCOUNTS

Reconciliation between the net surplus or deficit on the Statement of Movement on the General Fund Balance to the Net Cash Inflow from Revenue Activities per the Cash Flow Statement

| 2005/2006 | | 2006/2007 |
|------------------------|---|------------------------|
| £'000 | | £'000 |
| 5,080 | Income and Expenditure Account (Surplus) / Deficit | (22,922) |
| | Non Cash Items | |
| (4,402) | FRS 17 transactions | 5,541 |
| (28,020) | Interest Paid/ Received | (18,070) |
| (24,350) | Depreciation | (25,763) |
| 1,622 | Amortised Govt Grants and Capital Contributions | 6,535 |
| 245 | Capital Funded from Current Revenue | 1,036 |
| 321 | FRS 5 – PPP adjustments | 321 |
| (2,465) | Gain/Loss on Sale of Assets | (273) |
| <u>(57,049)</u> | | <u>(30,673)</u> |
| | Items on Accruals Basis | |
| 206 | (Increase) / Decrease in Stocks | 742 |
| 2,652 | (Increase) / Decrease in Debtors | 3,954 |
| 7,754 | Increase / (Decrease) in Creditors | (35,040) |
| (8,185) | Increase / (Decrease) in Creditors | 1,403 |
| <u>2,427</u> | | <u>(28,941)</u> |
| <u>(49,542)</u> | NET CASH FLOW FROM REVENUE ACTIVITIES | <u>(82,536)</u> |

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STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of group accounts for Highland Council and its subsidiary and associates. I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are 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 is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by management within the Council and the Joint Boards. In particular, the system includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports, which indicate actual expenditure against forecasts;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

The Director of Finance and Treasurer to the Boards has overall responsibility for Internal Audit in the Group Organisation described above. The Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Director on management and performance issues. In accordance with the principles of Corporate Governance, regular reports are made to the Council and Boards.

The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control. This report is then presented to the Council and Boards for their consideration.

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

- the work of managers within the Board;
- the work of the internal auditors as described above; and
- the external auditors in their annual audit letters and other reports

The Annual Internal Audit reports identified the following weaknesses for the group along with the agreed remedial action –

Highland Council

- Weaknesses relating to Highland Council are detailed in the Corporate Governance Statement on pages 64 to 66 of this document. Appropriate actions to address these weaknesses have been agreed.

Highland and Western Isles Valuation Joint Board.

- None

Highland and Islands Fire Board

- Controls within the payroll and creditors systems need to be improved. It has been reported that appropriate arrangements will be put in place to rectify the concern by 31 March 2008.

Northern Joint Police Board

- Absence of procedural guidance on the implementation of Contract Standing Orders resulting in the Standing Orders not always being complied with in carrying out tendering exercises for building projects.
- Need to ensure that official orders are placed for all goods and services required.
- Outstanding introduction of a Risk Management system to identify, record, evaluate, prioritise and manage key control risks on an ongoing basis.
- Inconsistency in the application of VAT when issuing invoices for provision of Police Services.

The agreed timescale for remedial action on the above points was agreed as 30 June 2007 for Risk Management and 31 August 2007 for all other points.

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

I am satisfied that the Council and Boards have in place a sound system of internal control. A review of which has identified the above weaknesses and agreed remedial actions. The system of internal controls will be further enhanced following implementation of the above improvements.

Alan Geddes, Director of Finance
28 June 2007

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INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

Independent auditor's report to the members of Highland Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Highland Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These 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 Housing Revenue Income and Expenditure Account, the Statement of Movement on HRA Balance, the Non-Domestic Rates Income Account, the Council Tax Income Account, the Pension Fund Accounts, the Common Good Funds and Trust Funds Accounts, and the Group Accounts and the related notes. 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 Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

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 the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority 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 Highland Council Corporate Governance Assurance Statement and the Group Statement on the System of Internal Financial Control reflect the authority's compliance with the SORP. I report if, in my opinion, they do not comply with the SORP or if they are misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statements cover all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword and Statutory Performance Indicators. 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.

INDEPENDENT AUDITOR'S REPORT

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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's and its group's 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 applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 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.

Fiona Kordiak CPFA
Director of Audit Services
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

28 September 2007

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**STATUTORY
PERFORMANCE
INDICATORS
2006 – 2007**

STATUTORY PERFORMANCE INDICATORS

THE HIGHLAND COUNCIL
Statutory Performance Indicators Year ending 31st March 2007

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STATUTORY PERFORMANCE INDICATORS

HIGHLAND COUNCIL Performance Indicators Year ending 31st March 2007

Each year the Council has a statutory duty to present indicators, which compare our performance over the last 12 months with that of the previous year. This is required by the Local Government in Scotland Act 2003 (Section 13) Publication of Information (Standards of Performance Direction 2001 (Amended)). The Council's goals and values commit the organisation to striving for excellence, innovation, quality and efficiency in delivery of its Services. This is to be achieved through regularly reviewing performance and setting targets for continuous improvement. The following demonstrates that in a number of areas of activity our performance is improving.

Note that as the classifications and definitions for several of the indicators have changed from last year, comparative figures for the previous year are only shown where appropriate.

All indicators are shown prior to finalisation by external audit.

25 Indicators have improved and 24 declined by 5% or more a further 35 show no significant change.

The following key has been used:

- ✓ where performance has improved by 5% or more since 05/06,
- * where performance has declined by 5% or more since 05/06.
- where there is no significant change in performance and
- where the indicator is New/ Changed / or No comparison is possible.

STATUTORY PERFORMANCE INDICATORS

ADULT SOCIAL WORK

COMMUNITY CARE SERVICES

INDICATOR 1 – Median time taken (days) to provide community care services from first identification of need to first service provision.

| | Persons receiving an assessment or review | | | |
|-------------------------------|---|--------------|---------------|--------------|
| | Number | | Median (days) | |
| | 05/06 | 06/07 | 05/06 | 06/07 |
| a) Total Persons with Service | FTR | FTR | FTR | FTR |

Where FTR: Failed to Return

RESIDENTIAL ACCOMMODATION

INDICATOR 2 – Staff qualifications: The percentage of care staff with appropriate qualifications for the level of post held, working in council residential homes:

| | Percentage of staff with appropriate qualifications | | |
|------------------------|---|--------------|----------|
| | 05/06 | 06/07 | Progress |
| Older people (age 65+) | 41.2 | 46.9 | ✓ |
| Other adults | 50.0 | 64.7 | ✓ |
| Overall total | 42.2 | 49.0 | |

INDICATOR 3 – Privacy: The number of single rooms and the number of rooms with en-suite facilities, expressed as a percentage of registered care places used by the Council for each client group.

| | Council | | Voluntary Sector | | Private Sector | | Overall | | |
|----------------------------|---------|--------------|------------------|--------------|----------------|--------------|---------|--------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| Single Rooms | | | | | | | | | |
| Older people (age 65+) | 98.8 | 100 | 100 | 97.0 | 93.2 | 95.7 | 94.4 | 96.5 | — |
| Other adults | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | — |
| En-suite facilities | | | | | | | | | |
| Older people (age 65+) | 61.6 | 62.7 | 65.1 | 75.0 | 82.2 | 93.1 | 78.1 | 86.1 | ✓ |
| Other adults | 78.9 | 97.8 | 73.8 | 86.4 | 67.9 | 85.6 | 70.7 | 87.0 | ✓ |

STATUTORY PERFORMANCE INDICATORS

ADULT SOCIAL WORK (cont)

HOME CARE/HOME HELPS

INDICATOR 4 – The level and volume of service of home care clients.

| Level of Service | Number of home care hours | | As a rate per 1,000 population aged 65+ | | Progress |
|--|---------------------------|---------------|---|--------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | |
| The number of home care hours per 1,000 population age 65+ | 12,583 | 11,698 | 343.7 | 312.1 | x |
| Flexibility | No of homecare clients | | Percentage of homecare clients | | Progress |
| | 05/06 | 06/07 | 05/06 | 06/07 | |
| Total receiving personal care | 1,765 | 1,607 | 71.5 | 79.3 | ✓ |
| Total receiving a service during evenings/overnight | 417 | 396 | 16.9 | 19.5 | ✓ |
| Total receiving a service at weekends | 989 | 1,093 | 40.1 | 53.9 | ✓ |

RESPIRE CARE

INDICATOR 5 - Provision of respite care

| | Per 1,000 older people age 65+ | | | Per 1,000 other adults aged 18-64 | | |
|---|--------------------------------|--------------|----------|-----------------------------------|--------------|----------|
| | 05/06 | 06/07 | Progress | 05/06 | 06/07 | Progress |
| Total overnight respite nights provided | 448.9 | 295.4 | x | 45.5 | 37.7 | x |
| % of respite nights not in a care home | 5.7% | 2.2% | x | 21.0% | 10.5% | x |
| Total daytime respite hours provided | 875.9 | 758.3 | x | 140.6 | 181.4 | ✓ |
| % daytime respite not in a day centre | 19.2% | 18.6% | x | 34.4% | 22.5% | x |

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STATUTORY PERFORMANCE INDICATORS

ADULT SOCIAL WORK (cont)

CRIMINAL JUSTICE

INDICATOR 6 - Social enquiry reports

| | 05/06 | 06/07 | Progress |
|--|-------|--------------|----------|
| a) Number of reports submitted to the courts during the year | 1,283 | 1,279 | |
| b) % of reports submitted to courts by the due date | 97.8% | 99.2% | — |

INDICATOR 7 – Probation

| | 05/06 | 06/07 | Progress |
|--|-------|--------------|----------|
| a) Number of new Probation Orders issued during the year | 291 | 271 | |
| b) % of new probationers seen by a supervising officer within one week | 57.0% | 81.1% | ✓ |

INDICATOR 8 – Community service

| | 05/06 | 06/07 | Progress |
|--|-------|--------------|----------|
| a) Number of new community service orders issued during the year | 327 | 379 | |
| b) The average number of hours per week to complete community orders | 2.7 | 3.1 | ✓ |

STATUTORY PERFORMANCE INDICATORS

BENEFITS ADMINISTRATION

BENEFITS ADMINISTRATION

ADMINISTRATION COSTS “*Changed indicator*”

Housing Benefit and Council Tax Benefit

INDICATOR 1 - The number of cases for each of the following caseloads and the average gross administration cost per case.

| The average weighted caseload | Number of cases | |
|-------------------------------------|-----------------|---------------|
| | 05/06 | 06/07 |
| Rent rebate caseload | - | 8,939 |
| Private rented sector caseload | - | 1,589 |
| Registered social landlord caseload | - | 2,723 |
| Council Tax Benefit caseload | - | 18,258 |

| | Gross cost per case | | |
|--|---------------------|--------------|----------|
| | 05/06 £ | 06/07 £ | Progress |
| Gross administration cost per weighted case- | - | 68.60 | — |

PROCESSING TIME

INDICATOR 2 - The time for processing applications from the date of receipt of the application to the posting of the notification of the outcome

| Type of claim | Number of claims | | Average time to process (days) | | |
|--|------------------|---------------|--------------------------------|-------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| New claims | 13,669 | 13,054 | 32.8 | 28.7 | ✓ |
| Notifications of change in circumstances | 13,614 | 13,120 | 13.4 | 10.4 | ✓ |

STATUTORY PERFORMANCE INDICATORS

| |
|--------------------------------|
| BENEFITS ADMINISTRATION |
|--------------------------------|

ACCURACY AND SECURITY OF PROCESSING

INDICATOR 3 –Accuracy and security of processing

| | % of cases | | |
|--|------------|--------------|----------|
| | 05/06 | 06/07 | Progress |
| a) The percentage of cases for which the calculation of the amount of benefit due was correct on the basis of the information available at the determination, for a sample of cases checked post- determination. | 98.6 | 98.6 | — |
| | 05/06 | 06/07 | Progress |
| b) Recoverable housing benefit overpayments in the year that were recovered as a percentage of housing benefit overpayments identified. | 108.7 | 112.3 | — |
| c) Recoverable housing benefit overpayments in the year that were recovered as a percentage of total overpayment debt at start of year plus in-year overpayments. | 61.9 | 67.7 | ✓ |
| d) Percentage of housing benefit overpayments written off | 1.9 | 1.6 | ✓ |

STATUTORY PERFORMANCE INDICATORS

CORPORATE MANAGEMENT

SICKNESS ABSENCE

INDICATOR 1 - The number of days lost through sickness absence expressed as a percentage of the total working days available, for the following groups of staff:

| Staff Groupings | Percentage of days lost | | |
|---|-------------------------|------------|----------|
| | 05/06 | 06/07 | Progress |
| Chief officers and local government employees | 4.6 | 4.8 | — |
| Craft employees | 8.2 | 6.7 | ✓ |
| Teachers | 3.8 | 3.9 | — |

CLAIMS

INDICATOR 2 - The number and value of civil liability claims incurred by the Council in the year

| | 05/06 | 06/07 | Progress |
|---|-------|-------------|----------|
| a) Number of claims per 10,000 population | 10.8 | 10.6 | Progress |
| b) Claims value as a percentage of revenue budget | 0.1% | 0.2% | — |

EQUAL OPPORTUNITIES POLICY

INDICATOR 3 - The number and percentage of the highest paid 2% and 5% earners among Council employees that are women.

| | Number of women | | % of posts | | |
|----------------------------|-----------------|------------|------------|-------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| In top 2% of all employees | 60 | 63 | 30.9 | 27.6 | x |
| In top 5% of all employees | 196 | 181 | 35.7 | 35.9 | — |

STATUTORY PERFORMANCE INDICATORS

CORPORATE MANAGEMENT (cont)

PUBLIC ACCESS

INDICATOR 4 – public access

| | 05/06 | 06/07 | Progress |
|--|-------|-------|----------|
| Number of council buildings from which the Council delivers services to the public | 209 | 168 | |
| Percentage of these in which all public areas are suitable and accessible to disabled people | 24.9 | 61.3 | ✓ |

COUNCIL TAX COLLECTION

INDICATOR 5 – Collection costs: the cost of collecting Council Tax per dwelling.

| | 05/06 | 06/07 | Progress |
|--|-------|-------|----------|
| | £ | £ | |
| The cost of collecting Council Tax per dwelling (All dwellings, not just chargeable) | 17.61 | 18.28 | — |

INDICATOR 6 – Current year income

| | 05/06 | 06/07 | |
|--|--------|--------|----------|
| | £,000 | £,000 | |
| a) the income due from Council Tax for the year, excluding reliefs and rebates | 83,550 | 89,064 | |
| | 05/06 | 06/07 | Progress |
| | % | % | |
| b) the percentage of (a) that was received during the year | 95.1 | 95.4 | — |

PAYMENT OF INVOICES

INDICATOR 7- Payment of invoices

| | 05/06 | 06/07 | Progress |
|--|-------|-------|----------|
| | % | % | |
| The number of invoices paid within 30 calendar days of receipt as a percentage of all invoices paid. | 88.8 | 83.8 | ✘ |

STATUTORY PERFORMANCE INDICATORS

CORPORATE MANAGEMENT (cont)

ASSET MANAGEMENT

INDICATOR 8 – Condition and Suitability “*New indicator*”

| | 05/06 | 06/07 | |
|--|----------------|----------------|----------|
| | m ² | m ² | |
| Gross internal floor area of operational accommodation (m ²) | - | 645,281 | |
| | % | % | Progress |
| a) the proportion of operational accommodation that is in a satisfactory condition | - | 54.5 | — |

| | 05/06 | 06/07 | |
|---|-------|-------|----------|
| | | | |
| Number of operational buildings | - | 1,481 | |
| | % | % | Progress |
| b) the proportion of operational accommodation that is suitable for its current use | - | 59.7 | — |

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STATUTORY PERFORMANCE INDICATORS

CULTURAL AND COMMUNITY SERVICES

SPORT AND LEISURE MANAGEMENT

INDICATOR 1 Sport and leisure management

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) The number of attendances per 1,000 population for all pools | 5,423 | 5,060 | * |

INDICATOR 2 Attendance at indoor sports facilities excluding pools

| | 05/06 | 06/07 | Progress |
|---|-------|-------|----------|
| a) The number of attendances per 1,000 population for indoor sports and leisure facilities, excluding pools in a combined complex | 2,722 | 2,753 | — |

MUSEUMS

INDICATOR 3 – Museums *“Changed indicator”*

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) The number of visits to/usages of council funded or part funded museums per 1,000 population | - | 1,074 | — |
| b) The number of those visits that were in person per 1,000 population | - | 766 | — |

STATUTORY PERFORMANCE INDICATORS

CULTURAL AND COMMUNITY SERVICES (cont)

LIBRARIES

INDICATOR 4 – Changes in library stock:

| Changes in library stock: | Adult lending stock | | | Children's and teenage lending stock | | |
|--|---------------------|--------------|----------|--------------------------------------|-------------|----------|
| | 05/06 | 06/07 | Progress | 05/06 | 06/07 | Progress |
| Recommended national target for annual number of additions per 1,000 population | 280 | 280 | | 100 | 100 | |
| Actual number of additions per 1,000 population | 230 | 198 | | 74 | 66 | |
| The percentage of the national target met for replenishing lending stock for adults / children and teenagers | 82.0 | 70.7 | * | 74.2 | 66.0 | * |
| Total number of closing stock items at year end per 1,000 population | 1,101 | 1,054 | | 525 | 515 | |

INDICATOR 5 - Use of libraries *“New indicator”*

| Borrowers from public libraries: | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) number of visits per 1,000 population | - | 5,194 | — |
| b) Borrowers as a percentage of the resident population | 22.8 | 21.9 | — |

INDICATOR 6 – Lifelong Learning
Learning Centre and Learning Access Point Users

| | 05/06 | 06/07 | Progress |
|--|-------|--------------------|----------|
| a) The number of users as a percentage of the resident population | 10.8% | 12.6% # | # |
| b) The number of occasions the terminals are accessed per 1,000 population | 644.2 | 658.5 # | # |

Data Collection for this indicator has been classed as unreliable in 06/07.

STATUTORY PERFORMANCE INDICATORS

DEVELOPMENT SERVICES

PLANNING APPLICATIONS PROCESSING TIME

INDICATOR 1 – The percentage of applications dealt with within target time (two months)

| Type of applicant | Number of applications | | Percentage dealt with within two months | | |
|-------------------|------------------------|--------------|---|--------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| Householder | 1,577 | 1,468 | 76.8 | 79.6 | — |
| Non-householder | 3,128 | 3,354 | 45.3 | 47.4 | |
| Total | 4,705 | 4,822 | 55.9 | 57.2 | — |

INDICATOR 2 - The number of appeals which were successful

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) The number of planning determinations made by the Council | 4,705 | 4,822 | |
| b) The number of planning determinations that went to appeal | 42 | 16 | |
| c) as a percentage of the number of planning determinations made by the Council | 0.5% | 0.1% | ✓ |
| d) as a percentage of the number of determinations that went to appeal | 52.4% | 33.3% | ✓ |

INDICATOR 3 - Development Plans

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| | % | % | |
| The percentage of the population covered by a Local Plan which has been adopted or finalised within the last five years | 71.0 | 72.0 | — |

STATUTORY PERFORMANCE INDICATORS

EDUCATION & CHILDREN'S SERVICES

PRIMARY SCHOOLS

INDICATOR 1 - Occupancy: the percentage of primary schools where the ratio of pupils to places is

| | 05/06 | 06/07 | |
|---|-------|-------------|----------|
| | % | % | Progress |
| 40% or less | 14.1 | 16.8 | |
| 41% to 60% | 32.1 | 27.2 | |
| 61% to 80% | 29.9 | 36.4 | |
| 81% to 100% | 19.6 | 14.7 | |
| 101% or more | 4.3 | 4.9 | |
| % of schools in which the ratio of pupils to places is between 61% and 100% | 49.5 | 51.1 | — |

| | 05/06 | 06/07 |
|---------------------------------------|-------|------------|
| b)The total number of primary schools | 184 | 184 |

SECONDARY SCHOOLS

INDICATOR 2 – Occupancy: The percentage of secondary schools where the ratio of pupils to places is

| | 05/06 | 06/07 | |
|---|-------|-------------|----------|
| | % | % | Progress |
| 40% or less | 0.0 | 0.0 | |
| 41% to 60% | 20.7 | 17.2 | |
| 61% to 80% | 34.5 | 37.9 | |
| 81% to 100% | 34.5 | 31.0 | |
| 101% or more | 10.3 | 13.8 | |
| % of schools in which the ratio of pupils to places is between 61% and 100% | 69.0 | 69.0 | — |

| | 05/06 | 06/07 |
|---|-----------|-------|
| b)The total number of secondary schools | 29 | 29 |

STATUTORY PERFORMANCE INDICATORS

EDUCATION & CHILDREN'S SERVICES (cont)

TEACHING STAFF EQUAL OPPORTUNITIES

INDICATOR 3 – The number and percentage of head and deputy head teachers who are women, compared with the percentage of all teachers that are women.

| | Head and Deputy Head women teachers | | | | All women teachers | | | |
|-------------------|-------------------------------------|------------|-------|-------------|--------------------|--------------|-------------------|-------------|
| | Number | | % | | Number | | % of all teachers | |
| | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 |
| Secondary schools | 32 | 33 | 34.0 | 35.5 | 847 | 826 | 59.3 | 59.5 |
| Primary schools | 190 | 166 | 83.3 | 82.2 | 1,340 | 1,238 | 91.8 | 91.9 |
| Special schools | 3 | 3 | 50.0 | 50.0 | 38 | 41 | 80.9 | 82.0 |
| Total | 225 | 202 | 68.6 | 67.1 | 2,225 | 2,105 | 75.8 | 75.6 |
| Progress | | | | — | | | | |

CHILDREN'S REPORTER LIAISON

INDICATOR 4 – Children's Hearing System reports

| | 05/06 | 06/07 | |
|--|-------|--------------|----------|
| a) The number of reports submitted to the Reporter during the year | 681 | 800 | Progress |
| b) The percentage of reports requested by the Reporter which were submitted within target time (20 days) | 37.2% | 49.3% | ✓ |

LOOKED AFTER CHILDREN

INDICATOR 5 – Supervision

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) The number of new supervision requirements made during the year | 84 | 137 | |
| b) The percentage of children seen by a supervising officer within 15 working days. | 84.5% | 76.6% | ✗ |

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STATUTORY PERFORMANCE INDICATORS

| |
|---|
| EDUCATION & CHILDREN'S SERVICES (cont) |
|---|

INDICATOR 6 – Academic achievement of children ceasing to be looked after
“Changed indicator”

| | At Home | | Away from Home | | Total | |
|---|---------|--------------|----------------|--------------|-------|--------------|
| | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 |
| Number ceasing to be looked after | - | 18 | 25 | 21 | - | 39 |
| Number attaining at least one Scottish Credit and Qualification (SCQF) Level 3 in any subject | - | 11 | 18 | 14 | - | 25 |
| % attaining at least one Scottish Credit and Qualification (SCQF) Level 3 in any subject | - | 61.1 | 72.0 | 66.7 | - | 64.1 |
| Progress | | | | x | | |
| Number attaining at least Scottish Credit and Qualification (SCQF) Level 3 in English and Maths | - | 5 | 16 | 10 | - | 15 |
| % attaining at least Scottish Credit and Qualification (SCQF) Level 3 in English and Maths | - | 27.8 | 64.0 | 47.6 | - | 38.5 |
| Progress | | | | x | | |

INDICATOR 7 – Staff qualifications: The percentage of care staff with appropriate qualifications for the level of post held, working in local authority residential children's homes.

| | Percentage of staff with appropriate qualifications | | |
|---|---|--------------|----------|
| | 05/06 | 06/07 | Progress |
| The percentage of care staff in local authority residential children's homes who have appropriate qualifications for the level of post held | 26.3 | 23.7 | x |

STATUTORY PERFORMANCE INDICATORS

EDUCATION & CHILDREN'S SERVICES (cont)

RESPIRE CARE

INDICATOR 8 – Provision of respite services: for children and young people aged 0-17 with care requirements.

| | Volume of respite care | | |
|---|------------------------|---------------|----------|
| | 05/06 | 06/07 | Progress |
| Total overnight respite nights provided | 2,448 | 3,755 | |
| Total overnight respite nights provided per 1,000 children aged 0-17 | 54.2 | 83.6 | ✓ |
| Percentage of respite nights not in a care home | 65.2% | 33.6% | x |
| Total hours daytime respite provided | 14,585 | 31,312 | |
| Total daytime respite nights provided per 1,000 children aged 0-17 | 323.2 | 697.3 | ✓ |
| Percentage of daytime respite hours provided not in a day care centre | 63.2% | 34.4% | x |

STATUTORY PERFORMANCE INDICATORS

HOUSING

RESPONSE REPAIRS

INDICATOR 1 – Response Repairs “*Transitional Indicator*”

- a) The target time for each priority category set by the Council
- b) The number of repairs carried out in each category
- c) The percentage of repairs completed within the target response time for each priority category
- d) The percentage of repairs due to be completed within 24 hours that were completed within target

| a) Priority category set by the Council | b) number | | c) % | | | d) % | | |
|---|-----------|---------------|-------|--------------|----------|-------------|--------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress | 05/06 | 06/07 | Progress |
| Emergency – 24 hours | 7,979 | 8,750 | 87.8 | 90.1 | — | 87.8 | 90.1 | — |
| Urgent – 3 days | 11,224 | 11,223 | 78.6 | 79.9 | — | | | |
| Routine – 20 days | 14,956 | 15,168 | 86.5 | 84.1 | — | | | |

MANAGING TENANCY CHANGES

INDICATOR 2 - Managing tenancy changes

| | 05/06 % | 06/07 % | Progress |
|---|---------|----------------|----------|
| The total annual rent loss due to voids, expressed as a percentage of the total amount of rent due in the year. | 2.0 | 2.0 | — |

STATUTORY PERFORMANCE INDICATORS

HOUSING (cont)

INDICATOR 3 – The time taken by the Council to re-let houses, analysed by the following time bands

| Void Period | i) Number of houses re-let | | | | ii) as a % of total for (i) | | | |
|--|----------------------------|--------------|------------|--------------|-----------------------------|--------------|------------|--------------|
| | NOT low demand | | Low Demand | | NOT low demand | | Low Demand | |
| | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 | 05/06 | 06/07 |
| Less than 2 weeks | 71 | 111 | 0 | 0 | 7.0 | 10.1 | 0 | 0 |
| 2-4 weeks | 241 | 260 | 1 | 0 | 23.7 | 23.7 | 7.1 | 0 |
| 5-8 weeks | 273 | 286 | 0 | 1 | 26.8 | 26.0 | 0 | 5.8 |
| 9-16 weeks | 272 | 303 | 3 | 8 | 26.7 | 27.6 | 21.4 | 47.1 |
| More than 16 weeks | 161 | 139 | 10 | 8 | 15.8 | 12.6 | 71.5 | 47.1 |
| Total | 1,018 | 1,099 | 14 | 17 | 100 | 100 | 100 | 100 |
| % empty houses that were re-let within 4 weeks | | | | | | | | |
| | 30.8 | 33.8 | 7.1 | 0.0 | | | | |
| Progress | | ✓ | | | | | | |

| | NOT low demand | | Low demand | |
|------------------------------|----------------|--------------|------------|--------------|
| | 05/06 | 06/07 | 05/06 | 06/07 |
| | Days | Days | Days | Days |
| Average time taken to re-let | 66 | 63 | 174 | 282 |
| Progress | — | | | |

STATUTORY PERFORMANCE INDICATORS

HOUSING (cont)

RENT ARREARS

INDICATOR 4 – rent arrears – **“Changed”**

| | 05/06 | 06/07 | Progress |
|---|-------|---------------|----------|
| a) Current tenants arrears as a percentage of the net amount of rent due in the year. | 5.8 | 6.3 | x |
| b) The percentage of current tenants owing more than 13 weeks rent at year end, excluding those owing less than £250. | 4.0 | 4.4 | x |
| c) The proportion of those tenants giving up their tenancy during the year that was in rent arrears. | - | 23.2 | — |
| Average debt owed by tenants leaving their tenancies with arrears | - | 436.79 | |
| d) The average debt owed by tenants leaving in arrears, as a proportion of the average weekly rent. | - | 857.3% | — |
| e) The percentage of arrears owed by former tenants that was either written off or collected during the year. | - | 12.8% | — |

COUNCIL HOUSE SALES

INDICATOR 5 – Council House Sales

| | 05/06 | 06/07 | Progress |
|--|----------|-----------------|----------|
| Number of Council Houses sold | 491 | 291 | |
| a) The percentage of house sales completed within 26 weeks | 58.0 | 59.1 | — |
| b) The average time for council house sales | 27 weeks | 27 weeks | — |

HOMELESSNESS

INDICATOR 6 - Homelessness

| | 05/06 | 06/07 | Progress |
|---|------------|-------------------|----------|
| a) The number of households assessed as homeless or potentially homeless during the year | 1,836 | 1,635 | |
| b) The average time between presentation and completion of duty by the Council, for those cases assessed as homeless or potentially homeless. (for those cases completed during the year) | 16.0 weeks | 18.3 weeks | x |
| The percentage of cases reassessed as homeless or potentially homeless within 12 months of previous case being completed, as a percentage of all cases assessed as homeless or potentially homeless during the year | 19.1% | 18.2% | — |

STATUTORY PERFORMANCE INDICATORS

PROTECTIVE SERVICES

FOOD SAFETY: HYGIENE INSPECTIONS

INDICATOR 1 – The number of establishments in each of the following four categories requiring inspection during the year, and the percentage of the inspections that were undertaken within the prescribed period

| Minimum inspection frequency | Number to be inspected in the year | | % of inspections undertaken within time | | |
|---|------------------------------------|--------------|---|-------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| Approved Premises | 141 | 134 | 100.0 | 81.3 | |
| 6 months | 28 | 14 | 100.0 | 78.6 | |
| 12 months | 316 | 286 | 98.4 | 98.3 | |
| More than 12 months | 1,573 | 1,340 | 45.4 | 60.6 | |
| % of premises with a minimum frequency of 12 months or less that were inspected on time | 169 | 148 | 98.5 | 97.3 | — |

NOISE COMPLAINTS

INDICATOR 2 – Domestic Noise Complaints *“New indicator”*

| | 05/06 | 06/07 | Progress |
|--|-------|------------------|----------|
| Total Number of Domestic Complaints | - | 96 | |
| a(i) The number of complaints settled without the need for attendance on site. | - | 58 | |
| % complaints settled without the need for attendance on site. | - | 60.4% | — |
| a(ii) The number of complaints requiring attendance on site. | - | 38 | |
| % complaints settled following attendance on site. | - | 39.6% | — |
| a(iii) The number of complaints dealt with under part V of the Antisocial Behaviour etc (Scotland) Act 2004. | - | 0 | |
| b(ii) average time between time of complaint & attendance on site | - | 177 hours | |

INDICATOR 3 – Non-Domestic Noise Complaints *“Changed indicator”*

| | 05/06 | 06/07 | Progress |
|---|-------|-------------|----------|
| Total Number of Non-Domestic Complaints | - | 82 | |
| a(i) The number of complaints settled without the need for formal action. | - | 82 | |
| % complaints settled without the need for formal action | - | 100% | — |
| a(ii) The number of complaints requiring formal action. | - | 0 | |

STATUTORY PERFORMANCE INDICATORS

PROTECTIVE SERVICES (cont)

TRADING STANDARDS ENQUIRIES, COMPLAINTS AND ADVICE

INDICATOR 4 - The number of enquiries, complaints and advice requests received, and the percentage completed in the within 14 days.

| | Number received | | % dealt with within 14 days | | |
|---|-----------------|--------------|-----------------------------|--------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | Progress |
| Consumer complaints dealt with within 14 days of receipt | 1,487 | 1,352 | 66.8 | 68.6 | — |
| Business advice requests dealt with within 14 days of receipt | 661 | 353 | 97.3 | 97.2 | — |

INDICATOR 5 – Trading Standards inspection and standards compliance.
“Simplified”

| Level of risk | | i) number of premises in risk category | ii) target total number of visits | % of (ii) actually achieved | Progress |
|---------------------------|--------------|--|-----------------------------------|-----------------------------|----------|
| High (every 12 months) | 05/06 | 208 | 208 | 79.3% | |
| | 06/07 | 148 | 148 | 82.4% | |
| Medium (every 2 years) | 05/06 | 2,646 | 1,323 | 63.0% | |
| | 06/07 | 2,700 | 1,246 | 84.4% | |
| Medium and high combined | 05/06 | 2,854 | 1,531 | 65.2% | ✓ |
| | 06/07 | 2,848 | 1,394 | 84.2% | |

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STATUTORY PERFORMANCE INDICATORS

ROADS AND LIGHTING

CARRIAGEWAY CONDITION

INDICATOR 1 – The percentage of the road network that should be considered for maintenance treatment.

| Road classes | Percentage of road network | | |
|--------------------|----------------------------|--------------|----------|
| | 05/06 | 06/07 | Progress |
| A class | 24.5 | 28.2 | |
| B class | 38.0 | 35.7 | |
| C class | 17.9 | 23.4 | |
| Unclassified roads | 49.1 | 54.0 | |
| Overall | 35.6 | 39.3 | x |

TRAFFIC LIGHT REPAIRS

INDICATOR 2 - Traffic light failure: the percentage of repairs completed within 48 hours.

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) number of repairs to be completed | 42 | 84 | |
| b) % of repairs completed within 48 hours | 92.9 | 89.3 | — |

STREET LIGHT REPAIRS

INDICATOR 3 – Street light failure: the percentage of repairs completed within 7 days.

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| a) number of repairs to be completed | 6,942 | 7,699 | |
| b) % of repairs completed within 7 days | 98.2 | 91.9 | x |

INDICATOR 4 Street lighting columns that are over 30 years old

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| % of street lighting columns that are over 30 years old | 48.1% | 47.8% | — |

STATUTORY PERFORMANCE INDICATORS

ROADS AND LIGHTING (cont)

INDICATOR 5 - Bridges - Road Network Restrictions

Percentage of the total number of assessed bridges, the number of council and private bridges that:

| | 05/06 | 06/07 | Progress |
|--|-------|--------------|----------|
| a) fail to meet the European standard of 40 tonnes | 32.4% | 31.0% | — |
| b) have the weight or width restriction placed on them | 1.2% | 0.6% | ✓ |

STATUTORY PERFORMANCE INDICATORS

WASTE MANAGEMENT

REFUSE COLLECTION AND DISPOSAL COSTS

INDICATOR 1 – The net cost of refuse collection and refuse disposal

| The net cost of: | 05/06 £ | 06/07 £ | Progress |
|--|------------|---------------|----------|
| a) Refuse collection (combined domestic, commercial and domestic bulky uplift) per premise | 53.46 | 67.08 | * |
| b) Refuse disposal per premise | 139.91 | 132.31 | ✓ |

REFUSE COLLECTION COMPLAINTS

INDICATOR 2 – the number of complaints per 1,000 households regarding the household waste collection service.

| | 05/06 | 06/07 | Progress |
|---|-------|--------------|----------|
| Number of complaints per 1,000 households | 21.6 | 6.0 # | # |

Data Collection for this indicator has been classed as unreliable in 06/07

REFUSE RECYCLING

INDICATOR 3 – the amount and percentage of municipal waste collected by the Council during the year that was recycled or disposed of by the following methods:

| Method | Total Tonnes | | % | | Progress |
|--|--------------|------------------|-------|-------------|----------|
| | 05/06 | 06/07 | 05/06 | 06/07 | |
| Landfilled | 128,997.0 | 121,080.4 | 80.1 | 73.6 | |
| Composted | 11,431.7 | 15,028.6 | 7.1 | 9.1 | |
| Recycled | 20,653.3 | 28,486.9 | 12.8 | 17.3 | |
| Other recovery including energy from waste | 0.0 | 0.0 | 0.0 | 0.0 | |
| % composted or recycled: | 32,085.0 | 43,515.5 | 19.9 | 26.4 | ✓ |
| Total tonnes | 161,082.0 | 164,595.9 | 100 | 100 | |
| Total biodegradable municipal waste landfilled | 81,996.8 | 77,081.6 | 50.9 | 46.8 | |

STATUTORY PERFORMANCE INDICATORS

WASTE MANAGEMENT (cont)

STREET CLEANLINESS

INDICATOR 4 – The cleanliness index achieved following inspection of a sample of streets and other relevant land.

| | 05/06 | 06/07 | Progress |
|---------------------------|-------|-------|----------|
| Overall Cleanliness Index | 73 | 71 | — |

ABANDONED VEHICLES – “New indicator”

INDICATOR 5 – The number of abandoned vehicles that require to be removed by the council, and the percentage removed within 14 days.

| | 05/06 | 06/07 | Progress |
|---|-------|---------|----------|
| The number of abandoned vehicles. | - | 517 # | |
| The percentage of abandoned vehicles removed by the council within 14 days. | - | 21.9% # | # |

Data Collection for this indicator has been classed as unreliable in 06/07

STATUTORY PERFORMANCE INDICATORS

| THE HIGHLAND COUNCIL | | |
|---|--|-------------------------|
| | Please contact the following with any queries | |
| Indicators | Contact Name | Telephone Number |
| Benefits Administration | Mark Peden | 01463 702338 |
| Corporate Management | | |
| Sickness Absence | John Robertson | 01463 702839 |
| Claims | Ailsa Mackay | 01463 702414 |
| Equal Opportunities | John Robertson | 01463 702028 |
| Public Access | Finlay MacDonald | 01463 702211 |
| Council Tax Collection | Mark Peden | 01463 702338 |
| Payment of Invoices | Charlie MacCallum | 01463 702334 |
| Asset Management | Katherine Mackintosh | 01463 702227 |
| Cultural and Community Services | | |
| Sport and Leisure Management | Jonathan Warde | 01349 868482 |
| Museums | Judi Menabney | 01463 702038 |
| Libraries | Ian Dalrymple | 01463 251253 |
| Education & Children's Services | | |
| Schools-occupancy primary and secondary | Alan Cowie | 01349 868222 |
| Teaching staff equal opportunities | Alan Cowie | 01349 868222 |
| Children's reporter liaison | Alan Knott | 01463 703441 |
| Children being looked after-supervision | Alan Knott | 01463 703441 |
| Children being looked after-academic attainment | Alan Knott | 01463 703441 |
| Staff qualifications-residential children's homes | Alan Knott | 01463 703441 |
| Respite care | Alan Knott | 01463 703441 |
| Housing | Shirley Mackenzie | 01463 702865 |
| Planning and Development Services | Richard Hartland | 01463 702254 |
| Protective Services | | |
| Food Safety Hygiene Inspections | Neil Downie | 01463 702651 |
| Noise Complaints | Neil Downie | 01463 702651 |
| Trading Standards | Neil Downie | 01463 702651 |
| Roads and Lighting | | |
| Carriageway Condition | Neil Downie | 01463 702651 |
| Lighting Repairs Response | Neil Downie | 01463 702651 |
| Bridges- Road Network Restrictions | Neil Downie | 01463 702651 |
| Social Work | Alan Knott | 01463 703441 |
| Waste Management | | |
| Refuse Collection and Disposal | Neil Downie | 01463 702651 |
| Refuse Collection Complaints | Neil Downie | 01463 702651 |
| Refuse Recycling | Neil Downie | 01463 702651 |
| Cleanliness | Neil Downie | 01463 702651 |
| Abandoned Vehicles | Neil Downie | 01463 702651 |

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