



The Highland Council

Statement of Accounts

2007 - 2008

STATEMENT OF ACCOUNTS 2007/08 – CONTENTS

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EXPLANATORY FOREWORD
BY DEPUTE CHIEF EXECUTIVE AND DIRECTOR OF FINANCE

1. Introduction

The Statement of Accounts (the Accounts) report on the financial performance of the Highland Council for the year ended 31 March 2008. The Statement of Accounts excludes the transactions, assets and liabilities of the Pension Fund which are disclosed separately on pages 67 to 77 and the Common Good Funds, Charitable, Educational and other Trust Funds which are disclosed separately on pages 78 to 85.

The Statement of Accounts also includes Group Accounts of the Council on pages 87 to 97. 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.

2. Statement of Accounts (the Accounts)

The Accounts comprise:

- 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
- Income and Expenditure Account – using UK Generally Accepted Accounting Principles (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
- 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 or deficit on the Income and Expenditure Account and the movement on the General Fund Balance
- Statement of Total Recognised Gains and Losses - presents all gains and losses in the year, not just those reported in the income and expenditure account
- Balance Sheet - reports the assets, liabilities, funds and reserves of the Council
- Cash Flow Statement - summarises the inflows and outflows of cash arising from revenue and capital transactions with third parties
- Notes to the Core Statements – provides 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
- 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
- Non-Domestic Rate Income Account - shows the non-domestic rates collected by the Council and paid into the national pool administered by the Scottish Government. 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

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- 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
- Corporate Governance Assurance Statement - states the Convenor's and Chief Executive's view of the Highland Council's governance arrangements
- Statement of Responsibilities - sets out the responsibilities of the Authority and of the Depute Chief Executive and Director of Finance
- 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.

3. Summary of Financial Results

(a) Balances

The movements and balances on the Council's revenue reserves for 2007/08 are summarised below.

General Fund	Balance as at 01 April 2007 £m	Earmarked balances utilised 07/08 £m	Increase in earmarking 07/08 £m	Transfer between earmarked funds £m	General Fund deficit 07/08 £m	Balance as at 01 April 2008 £m
Non- earmarked balances	17.869	4.941	(6.003)		(0.524)	16.283
Earmarked balances						
Devolved School Management	2.869	(1.101)				1.768
Spend to Save	2.049	(0.399)	0.109			1.759
PPP2 Surplus	0.000		2.264			2.264
Central Energy Efficiency	0.390	(0.066)	0.020	0.375		0.719
Joint Ventures	0.303	(0.034)	0.016			0.285
Fire Board Transitional Funding	1.112	(1.112)				0.000
IT Investment	1.207	(1.174)	1.991			2.024
Winter Maintenance	1.309		0.070			1.379
Energy Investment Fund	1.504	(0.169)	0.075	(0.375)		1.035
Learning Disability Re-provisioning	1.355	(0.886)	0.072			0.541
Adult Basic Literacy and Prison Literacy	0.166					0.166
Job Evaluation	-		1.386			1.386
Total earmarked balances	12.264	(4.941)	6.003	0.000	0.000	13.326
Total General Fund	30.133	0.000	0.000	0.000	(0.524)	29.609
Housing Revenue Account	Balance As at 01 April 2007 £m				HRA Surplus 2007/08	Balance as at 01 April 2008
Housing Revenue Account	8.893				(0.089)	8.804

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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. The Council keeps its level of balances under review and aims to keep a sum of about 3% of the revenue budget, approximately £17m, to be held as a contingency in non earmarked balances.

The deficit on the General Fund for the year is £0.524m. In addition a further £6.003m of balances were earmarked within General Fund with £4.941.m utilised in 2007/08.

(b) General Fund Services

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 2007/08 results against budget, on the basis of the Council's internal service analysis.

	Budget	Actual	Over/ (Under)	
	£m	£m	£m	Notes
Education, Culture and Sport	200.722	202.387	1.665	1
Housing (non HRA), Property and Architectural Services	7.865	8.017	0.152	2
Building Maintenance	(0.420)	(0.414)	0.006	
Planning and Development	5.790	5.699	(0.091)	
Social Work	87.670	87.618	(0.052)	3
Transport, Environment and Community	55.607	56.053	0.446	4
Chief Executive's Office	26.477	26.129	(0.348)	5
Finance Services	6.372	5.833	(0.539)	6
Housing Benefits	-	0.220	0.220	7
	390.083	391.542	1.459	
<u>Joint Board Requisitions:</u>				
Northern Joint Police Board	23.553	22.751	(0.802)	8
Highland & Islands Fire Board	16.528	16.421	(0.107)	
Highland & Western Isles Valuation Joint Board	2.274	2.237	(0.037)	
Highlands and Islands Transport Partnership	0.089	0.089	-	
Non Domestic Rate Relief	0.450	0.460	0.010	
Loan Charges	42.806	40.875	(1.931)	9
Interest on Revenue Balances	(0.900)	(1.833)	(0.933)	10
Interest and Investment Income	-	(0.011)	(0.011)	
Total General Fund Services	474.883	472.531	(2.352)	

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	Budget	Actual	Over/ (Under)	Notes
	£m	£m	£m	
Total General Fund Services	474.883	472.531	(2.352)	
Appropriations to/from Reserves				
Use of Repairs & Renewals Fund	0.020	0.022	0.002	
Insurance Fund	0.150	0.150	-	
Affordable Housing	2.568	2.509	(0.059)	
Amount to be funded from Taxpayers/ General Fund Balance	477.621	475.212	(2.409)	
Revenue Support Grant	(299.042)	(299.042)	-	
Non-domestic Rates	(77.966)	(77.978)	(0.012)	
Council Tax	(102.309)	(104.920)	(2.611)	11
	(1.696)	(6.728)	(5.032)	
Unallocated pressures/growth	3.996	-	(3.996)	12
Equal Pay Provision	4.526	4.526	-	12
Single Status Provision	-	(3.801)	(3.801)	13
Restructuring Costs Provision	-	(0.308)	(0.308)	14
Caithness Heat and Power Limited Provision	-	6.800	6.800	15
Financial Instruments Adjustment – Highland Housing Alliance Loan	-	0.035	0.035	
Transfer to earmarked balances	(1.802)	1.062	2.864	16
Use of non earmarked balances	(5.024)	(1.062)	3.962	
Total General Fund Deficit	-	0.524	0.524	

The Council's General Fund out-turn was a deficit of £0.524m for the year. The main variations from budget during the year were as follows:

- 1 The budget for Education, Culture & Sport (ECS) shows an overspend of £1.665m. However; included in this is a Devolved School Management budget deficit of £1.101m. The position for the remaining part of the budget was an overspend of £0.564m made up of £1.767m over on the non devolved school budget; mainly due to the supply teachers (£0.772m), administration costs from removal expenses and in the staffing unit (£0.457m) and the impact of writing down the Council's investment in Loch Ness and Highland Horizons (£0.545m); and £1.224m underspend on the Joint Committee for Children and Young People budget mainly attributable to staff savings and the receipt of unbudgeted grant income.
- 2 The overspend on Housing Property and Architectural Services of £0.152m is largely due to a reduction in fee earnings in the Property and Architects side of the business.

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- 3 The Social Work service budget is showing an underspend in the year of £0.052m due to pressures in the Community Care section of the Service, which have been partly mitigated by savings elsewhere in the budget.
- 4 TEC services' budget is overspent by £0.446m as a result of a late change to the leasing charge for the year and increased costs in recycling due to increased activity.
- 5 The budget for the Chief Executive's office shows an underspend of £0.348m which mainly results from staff turnover savings.
- 6 The Finance Service underspend of £0.539m is attributable to staff vacancy savings.
- 7 The Council has incurred net expenditure on Housing Benefit of £0.220m arising from an increase in unrecovered overpayments in the year. Ongoing action to recover these continues into 2008/09.
- 8 The saving of £0.802m on the Police Board requisition is due to the Council's share of reduced costs to the Board; following the transfer of forensics science work to the Scottish Police Services Authority. As the transfer arrangements for this work were not finalised at the beginning of the financial year; the costs of forensics had been included in the budget when setting the requisition; this will now be refunded to the authorities.
- 9 Loans charge interest and repayments costs are under budget by £1.931m as a result of favourable long term borrowing rates; good returns on investments; and an improved cash flow throughout the year.
- 10 Interest on Revenue Balances is £0.933m greater than the amount budgeted for, due to improved cash flow.
- 11 Income from Council Tax was £2.611m more than budgeted for as a result of improved collection rates and an increase in the number of taxable properties.
- 12 When setting the budget an amount to cover future budgetary pressures and growth was established. The main item Included within this was £3.389m for Single Status agreement costs. However the Single Status agreement was not implemented in 2007/08. This has led to the creation of a provision of £4.526m for Equal Pay compensation claims which has been funded in part from the budget set aside for pressures and growth.
- 13 In 2006/07 the Council established a provision to meet the estimated costs of introducing the Single Status agreement. This was not required in 2007/08 and consequently the provision has been reduced by £3.801m.
- 14 During 2006/07 The Council initiated a management restructuring process and a provision based on estimated costs was established at 31 March 2007. Following the completion of the management restructuring process there was an unused balance of £0.308m on this provision which was written back in 2007/08.

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- 15 In 2006/07 the Council established a contingent liability for the potential costs of being guarantor for Caithness Heat and Power. The business position of the company has changed and it is now prudent to create a provision in the 2007/08 accounts to meet the potential cost of this guarantee.
- 16 During the year ear marked funds increased by £1.062m. There were transfers into the funds of: £1.991m for future IT investment projects; £2.264m for PPP2 and £1.386m for budget pressures in 2008/09 anticipated from job evaluation. Transfers from the ear marked funds totalled £4.941m. The main funds used were: Devolved School Management £1.101m; IT investment funds £1.174m; Fire Budget transitional adjustment £1.112m; Newcraigs Disability Reprovisioning £0.886m and Spend to Save £0.400m. Interest on Revenue Balances of £0.427m was also applied to the funds.

(c) Housing Revenue Account (HRA)

	Budget £m	Actual £m	Variance £m
Staff	5.661	5.168	(0.493)
Other Costs	21.239	22.235	0.996
Loan Charges and Interest	15.678	15.333	(0.345)
	<u>42.578</u>	<u>42.736</u>	<u>0.158</u>
Income to HRA	(42.442)	(42.647)	(0.205)
Total	<u>0.136</u>	<u>0.089</u>	<u>(0.047)</u>

The HRA utilisation of balances was £0.89 m against a budget of £0.136m.

(d) Group Financial Results

The financial results for the Group are summarised below:

- Net Expenditure before Reserves Movements £ 490.953m
- Surplus for the year £ 9.473m
- Balances available (General Fund) £ 40.027m
- Balances available (HRA) £ 8.804m
- Increase/(decrease) in Net Assets £ 1.760m

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(e) Capital Programmes

The following table shows the actual net expenditure against budget for the year:

	Net Expenditure			Notes
	Budget	Actual	Over/ (Under)	
	£m	£m	£m	
General Fund				
Education, Culture & Sport	19.898	11.558	(8.340)	1
Other Housing	0.141	0.128	(0.013)	
Planning and Development	0.965	0.531	(0.434)	2
Technical, Environmental & Community	13.655	15.546	1.891	3
Social Work	5.332	1.992	(3.340)	4
Strategic Property Management	4.392	3.072	(1.320)	5
Accommodation Rationalisation	3.094	1.949	(1.145)	6
Energy Management	0.833	0.035	(0.798)	7
Chief Executives	2.457	1.060	(1.397)	8
Total	50.767	35.871	(14.896)	
Housing HRA	-	(1.164)	(1.164)	9

1. The Education, Culture & Sport Service is showing an underspend of £8.340m against their programme of £19.898m. This consists of underspends on the ECS programme of £6.258m and on the H2007 programme of £2.081m. There is slippage on the schools projects including Acharacle, Aviemore, Tomacross, Maryburgh/Conon Bridge and on the Nairn Academy SEN Unit. In addition, the PPP2 Curricular Equipment budget is underspent. The H2007 programme has progressed well overall but there have been delays with Ferrycroft/Lairg Auction Mart, Sutherland Sports Facility and Caithness Regional Sports Facility. The spend target for Highland Archive Centre has also fallen short. All unused funding will be carried forward to allow completion in future years.
2. Planning and Development Service has a year end underspend of £0.434m against a programme of £0.965m. The underspend largely relates to slippage which will be carried forward into 2008/09 on the Core Path Network and the Caithness Heritage Access project.
3. In Transport Environmental and Community Services there is an overspend of £1.891m for 2007/08. The overspend relates to the completion of the 2006 storm damage works and acceleration of work on the final phase of the A851 Broadford to Armadale road improvement and the new ferry terminal at Inverie.
4. The Social Work programme shows an underspend of £3.340m against a target of £5.332m. This is due to slippage in the programme resulting from a longer timeframe being needed to progress projects to tender stage. This underspend will be carried forward to 2008/09 and a revised capital programme incorporating the 5 new care homes will be presented to a future Housing and Social Work committee.
5. The Strategic Property Management budget has an underspend of £1.320m at the end of the financial year, due to slippage on the Health and Safety and Disability Discrimination Act budget lines.

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6. Due to project slippage the Accommodation Rationalisation programme has an estimated carry forward to 2008/09 of £1.145m.
7. The Energy Management budget is underspent by £0.798m due to the use of the Energy Investment Fund to fund much of the work in this budget heading. The underspend on the capital programme will be carried forward to be used in 2008/09.
8. The year end position on the Chief Executive's budget is an underspend of £1.397m. The main factors contributing to this are: unbudgeted income in relation to Kyle Library and Service Point and rescheduling of projects into financial year 2008/09, which will be funded by carrying forward the underspend.
9. The gross expenditure for HRA was £12.665m, an overspend of £0.015m for 2007/08. This was funded by income, mainly from the sale of Council Houses, of £10.053m; contribution from current revenue of £0.779m and capital receipts brought forward from 2006/07 of £2.997m. The balance of £1.164m will be carried forward to supplement the 2008/09 allocation.

4. Major Changes in Accounting Practice

In order to comply with SORP 2007 the Fixed Asset Restatement Account and the Capital Financing Account in the Balance Sheet have been replaced by a Revaluation Reserve and Capital Adjustment Account. More details are given in Statement of Accounting Policies note 2.

5. 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 or enhancements during 2007/08 include in the ECS programme: enhancing schools in the "21st Century Schools" programme and in the TECS programme continued road improvements notably the Melvich to Strathy road and the new Aviemore interchange.

General Fund assets with a total net book value of £1.4m were sold. The largest of these was the sale of land at Townlands, Cromarty to Albyn Housing Association.

The Housing Revenue Account programme invested £12.6m in council house stock and sold houses with a net book value of £9.1m.

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6. Summary of Future Capital Investment Plans

Indicative capital allocations detailed below for forward years up to and including 2011/12, will allow Strategic Committees to review current capital plans and agree priorities.

Indicative Allocations	2008/09	2009/10	2010/11	2011/12	Total
	£m	£m	£m	£m	£m
ECS incl H2007	27.3	23.8	28.4	33.2	112.7
Planning & Development	1.1	1.4	0.6	0.7	3.8
Social Work incl new care homes	4.4	9.2	7.9	8.2	29.7
TEC Services	25.9	22.0	23.3	19.2	90.4
Chief Executive's	2.5	1.6	1.4	1.4	6.9
Housing and Property	7.9	8.1	6.6	6.9	29.5
Discretionary Fund	0.5	0.5	0.5	0.5	2.0
Programme Slippage		-2.5	-7.0	-7.0	-16.5
Total Net Allocation	69.6	64.1	61.7	63.1	258.5

These allocations allow for a programme of investment in a range of priorities including; the school estate, cultural and sport facilities, countryside and environmental improvements, social work facilities, roads, bridges, transport, flood prevention schemes, waste and recycling facilities, service points and office accommodation, energy efficiency, health and safety and disability access improvements.

In addition, in September 2007, a Housing Revenue Account capital programme of £12m per annum over the same period was approved, which will allow for improvements towards achieving the Scottish Housing Quality Standard.

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7. 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 Depute Chief Executive and Director of Finance has delegated powers to take the most appropriate form of borrowing from approved sources.

8. Capital Fund

The Council operates a capital fund to account for transactions relating to the Affordable Social Housing (Landbanking) initiative and capital contributions from developers. Movements on the fund during the year were as follows:

	Landbanking Fund £m	Developers contributions £m	Capital Fund £m
Balance as at 31 March 2007	16.701	4.068	20.769
Developers contributions received	-	0.662	0.662
Income generated from reduction of Council Tax discounts on second homes	2.509	-	2.509
Land sales	1.415	-	1.415
Interest on balances	0.889	0.241	1.13
Balance as at 31 March 2008	21.514	4.971	26.485

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During the year the Council advanced loans of £5.303m to the Highland Housing Alliance and received repayments of £3.144m.

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

FRS 17 ("Retirement Benefits") has been adopted in preparing the Accounts for 2007/08. 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 Government. 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 40 to the Core Statements details the income and expenditure charged under FRS 17, based on estimates by the Fund's Actuary, and Note 39 to the Core Statements shows that the Council has a net pension liability at 31 March 2008 of £85.669m 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
Depute Chief Executive and Director of Finance
30 September 2008**

STATEMENT OF ACCOUNTING POLICIES

1. General

The Statement of Accounts (the Accounts) for the Highland Council, the Common Good Funds, 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 2007: 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 in Accounting Policies

SORP 2007 requires the Council to account for and disclose financial instruments in accordance with FRS 25, FRS 26 and FRS 29. A prior period adjustment has been made to restate the Balance Sheet as at 31 March 2007.

Financial instruments are classified as follows:

- Fixed deposits and trade receivables are classified as loans and receivables
- Investments and short term deposits (other than interests in joint ventures and fixed deposits) are classified as available for sale
- Borrowings and trade payables are classified as other liabilities

Financial instruments are initially measured at fair value. Their subsequent measurement depends upon their classification.

- Loans and receivables and other liabilities are held at amortised cost
- Available for sale assets are held at fair value

SORP 2007 also requires the Council to replace the Fixed Asset Restatement Account with a Revaluation Reserve and to replace the Capital Financing Account with a Capital Adjustment Account. In accordance with the SORP no prior period adjustment has been made to reflect this change as there is insufficient information to establish reliable opening balances on the new accounts. The 2006/07 Balance Sheet figures have been restated as follows:

	Balance Sheet as at 31 March 2007 £000	Transfer in accordance with SORP 2007 £000	Restated balance as at 31 March 2007 £000
Fixed Asset Restatement Account	589,810	(589,810)	-
Revaluation Reserve	-	-	-
Capital Financing Account	169,614	(169,614)	-
Capital Adjustment Account	-	759,424	759,424
	<u>759,424</u>	<u>-</u>	<u>759,424</u>

STATEMENT OF 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 assets and Non-Operational assets.

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 properties, Assets under construction and Surplus assets, held for 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

Robert Smail (MRICS), Property Manager, Housing and Property Services, carried out a number of revaluations falling due within the five year rolling programme. The effective date of the revaluations was 1 April 2007. 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.

STATEMENT OF ACCOUNTING POLICIES

Specific details regarding the valuation of all categories of fixed assets are shown in Note 19 to the Core Statements.

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 suffered a reduction in the value of assets of £2.068m as a result of impairment during 2007/08.

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 resource.

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 Transport, Environment and Community Services stock amounting to £2.639m (2006/07 £3.238m) 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.

STATEMENT OF ACCOUNTING POLICIES

10. Central Support Services

Central Support Service costs such as the Chief Executive's Office, 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 debtors and Housing Rents.

Provision has been included in the accounts for the potential cost of unsettled insurance claims as at 31 March 2008 and for the potential impact on the financial year of equal pay settlements on the Council.

The potential financial impact of the Council's guarantee in respect of Caithness Heat and Power has also been provided for.

12. Revenue and Capital Grants

Where grant awarding conditions allow, 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

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 £17m, 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 2007/08 investment in energy efficiency and IT were some of the commitments identified.

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.

STATEMENT OF ACCOUNTING POLICIES

14. Reserves

Capital Adjustment Account

The Capital Adjustment Account replaces the Capital Financing Account and reflects the difference between the repayment of debt and depreciation charges 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.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account is a new account which records the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

Revaluation Reserve

The Revaluation Reserve replaces the Fixed Asset Restatement Account and represents surpluses or deficits arising from the revaluation of fixed assets and the net book value of asset disposals. This reserve is not a cash reserve and is not available for financing capital expenditure.

Capital Receipts Reserve

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

Renewal and Repair Funds

The Council operates 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 the artificial pitch at Tain Royal Academy Community Complex.

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.

Contributions received from developers in accordance with planning gain agreements under Section 75 of the Town and Country Planning (Scotland) Act 1997 are added to the Capital Fund and are 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 earmarked 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 34 to the Core Statements.

STATEMENT OF ACCOUNTING POLICIES

15. Pensions

Teachers

The Scottish Teachers' Superannuation Scheme (STSS) is an unfunded defined benefit scheme administered by the Scottish Government. 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.

Other Employees

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

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 2008. 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 2007/08 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 2008.

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.

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 two PPP contracts for the provision of schools and related services.

STATEMENT OF ACCOUNTING POLICIES

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.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

2006/07			2007/08		
Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
(9,800)	Council Housing (Housing Revenue Account)		37,224	(42,257)	(5,033)
23,714	Cultural and Related Services		36,534	(9,220)	27,314
182,544	Education Services		243,629	(34,503)	209,126
29,291	Environmental Services		34,653	(5,341)	29,312
2,233	Housing services		54,773	(45,567)	9,206
4,260	Planning & Development Services		16,850	(10,030)	6,820
30,345	Roads and Transport Services		74,942	(42,676)	32,266
87,909	Social Work Services		131,490	(35,716)	95,774
12,900	Central Services to the Public		63,380	(54,430)	8,950
	Joint Board Requisitions				
21,960	- Northern Joint Police Board	2	22,751	-	22,751
15,392	- Highland and Islands Fire Board	2	16,421	-	16,421
2,119	- Highland and Western Isles Valuation Joint Board	2	2,237	-	2,237
63	- Highland and Islands Transport Partnership	2	89	-	89
10,935	Corporate and Democratic Core	5	13,315	(313)	13,002
(3,614)	Non-Distributed Costs	6	6,840	-	6,840
<hr/>			<hr/>	<hr/>	<hr/>
410,251	NET COST OF SERVICES		755,128	(280,053)	475,075
	(Gain)/Loss on Disposal of Fixed Assets				(1,007)
273					(1,007)
(111)	Surplus on Trading Operations	11			(109)
31,996	Interest Payable and Similar Charges				29,386
(2,925)	Interest and Investment Income				(5,142)
(3,669)	Pensions Interest Cost and Expected Return on Pension Assets	38			(5,635)
<hr/>					<hr/>
435,815	NET OPERATING EXPENDITURE				492,568
(100,804)	Council Tax				(104,920)
(279,695)	Revenue Support Grant				(299,042)
(77,938)	Non Domestic Rates				(77,518)
<hr/>					<hr/>
<u>(22,622)</u>	NET DEFICIT/(SURPLUS)				<u>11,088</u>

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2006/07 Net Expenditure £000		2007/08 Net Expenditure £000
(22,622)	NET INCOME AND EXPENDITURE ACCOUNT DEFICIT/(SURPLUS)	11,088
	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 18)	
<u>13,491</u>		<u>(10,564)</u>
(9,131)	MOVEMENT IN THE GENERAL FUND FOR THE YEAR	524
(21,002)	GENERAL FUND BALANCE BROUGHT FORWARD	
		<u>(30,133)</u>
<u>(30,133)</u>	GENERAL FUND BALANCE CARRIED FORWARD	<u>(29,609)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2006/07 Net £000		2007/08 Net £000
(22,622)	NET INCOME AND EXPENDITURE ACCOUNT DEFICIT/(SURPLUS)	11,088
6,188	(Surplus)/deficit arising on the revaluation of fixed assets	(3,999)
(41,418)	Actuarial (gains)/losses on pension fund assets and liabilities	6,815
<u>165</u>	Net movements not attributable to the General Fund	<u>(64)</u>
<u>(57,687)</u>	Total recognised losses/(gains) for the year	<u>13,840</u>

BALANCE SHEET AS AT 31 MARCH 2008

31/03/07 £000 (restated)		Notes	31/03/08 £000	£000
Tangible Fixed Assets				
Operational assets				
510,074	Council dwellings		501,221	
616,783	Other land and buildings		612,942	
9,568	Vehicles, plant, furniture and equipment		12,731	
222,374	Infrastructure assets		235,733	
919	Community assets		955	
1,359,718				1,363,582
Non-operational assets				
22,637	Investment properties		22,291	
5,108	Assets under construction		7,856	
4,012	Surplus assets, held for disposal		3,877	
31,757				34,024
1,391,475	Total Tangible Fixed Assets	19	1,397,606	1,397,606
2,395	Long term investments		1,850	
42,069	Long term debtors (net of provisions)	28	41,422	
				43,272
1,435,939	Total Assets		1,440,878	1,440,878
Current Assets				
3,903	Stocks and work in progress		3,387	
91,210	Debtors		84,363	
(40,864)	Provision for bad and doubtful debts	32	(38,254)	
59,401	Investments		47,688	
123	Cash and bank		121	
113,773				97,305
Current Liabilities				
24,558	Borrowing repayable within 12 months		23,610	
80,517	Creditors		61,329	
5,740	Provisions	32	11,940	
3,889	Bank overdraft		4,659	
(114,704)				(101,538)
(931)	Net Current Liabilities		(4,233)	(4,233)
1,435,008	Total Assets less Current Liabilities c/fwd		1,436,645	1,436,645

BALANCE SHEET AS AT 31 MARCH 2008

31/03/07 £000 (restated)		Notes	31/03/08 £000	£000
1,435,008	Total Assets less Current Liabilities b/fwd			1,436,645
(579,529)	Borrowing repayable after 12 months		(574,345)	
(34,519)	Government grants deferred		(46,462)	
(39,682)	Capital contributions deferred		(43,062)	
(80,331)	Liability related to defined benefit pension schemes	39	(85,669)	
<u>(734,061)</u>				<u>(749,538)</u>
<u>700,947</u>	Total Assets less Liabilities			<u>687,107</u>
	Financed by:	34		
	Reserves			
759,424	Capital Adjustment Account		741,760	
(45,162)	Financial Instruments Adjustment Account		(42,833)	
-	Revaluation Reserve		3,999	
(80,331)	Pensions Reserve		(85,669)	
<u>5,396</u>	Capital Receipts Reserve		<u>2,845</u>	
639,327				620,102
	Fund balances			
1,285	Renewal and Repair Fund		1,375	
20,769	Capital Fund		26,485	
<u>540</u>	Insurance Fund		<u>732</u>	
22,594				28,592
	Revenue account balances			
30,133	General Fund		29,609	
<u>8,893</u>	Housing Revenue Account		<u>8,804</u>	
39,026				38,413
<u>700,947</u>	Total net worth	33		<u>687,107</u>

The unaudited accounts were issued on 26 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

Alan Geddes
Depute Chief Executive and Director of Finance
30 September 2008

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

31/03/07 £000		Notes	31/03/08 £000	£000
Revenue Activities				
Cash outflows				
327,249	Cash paid to and on behalf of employees		328,544	
262,043	Other operating cash payments		319,484	
86,019	National non-domestic rates payments to national pool		99,342	
23,592	Housing Benefit paid		23,632	
<u>698,903</u>	Total outflows		<u>771,002</u>	771,002
Cash inflows				
(25,015)	Rents (after rebates)		(69,206)	
(114,250)	Council tax receipts		(120,269)	
(84,462)	Non-domestic rates receipts		(78,540)	
(78,394)	National non-domestic rates receipts from the national pool		(77,506)	
(279,695)	Revenue support grant		(299,042)	
(23,283)	DWP grants for benefits		(23,168)	
(26,312)	Other government grants	44	(27,526)	
(77,100)	Cash received for good and services		(73,325)	
(72,701)	Other operating cash receipts		(48,465)	
<u>(781,212)</u>	Total inflows		<u>(817,047)</u>	(817,047)
(82,309)	Net cash outflow from revenue activities			(46,045)
Returns on investment and servicing of finance				
Cash outflows				
21,150	Interest paid			<u>26,805</u>
21,150	Total outflows			26,805
Cash inflows				
(3,041)	Investment income and interest received			<u>(2,618)</u>
(3,041)	Total inflows			(2,618)
18,109	Net cash outflow from return on investments and servicing of finance			24,187

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NOTES TO THE CORE FINANCIAL 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 Highland 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 three Joint Boards and the Transport Partnership are deemed to be associates of the Highland Council, and are included on this basis in the Group Accounts starting on page 87.

Further information on the Joint Boards and the Transport Partnership can be found in each body's Statement of Accounts which are available upon request from the Depute Chief Executive and Director of Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

3. Exceptional Items

During the year expenditure of £4.4m has been charged to the Income and Expenditure Account to cover the cost of financial liabilities which are likely to arise from the financial guarantees given in favour of Clydesdale Bank PLC on behalf of Caithness Heat and Power Limited.

4. Extraordinary Items

The Council has no extraordinary items to disclose for the year to 31 March 2008.

NOTES TO THE CORE FINANCIAL STATEMENTS

5. Corporate and Democratic Core costs

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.

2006/07		Expenditure	2007/08	Income	Net
Net		£000	£000	£000	£000
£000					
9,839	Democratic Representation and Management	10,346		-	10,346
1,096	Corporate Management	2,969		(313)	2,656
<u>10,935</u>	Total	<u>13,315</u>		<u>(313)</u>	<u>13,002</u>

6. 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.

7. Publicity

Section 5 of the Local Government Act 1986 requires the Council to disclose expenditure on publicity. Expenditure of £1.467m was incurred during 2007/2008 and is included within Net Cost of Services as follows:

2006/07		2007/08
£000		£000
504	Recruitment advertising	498
698	Other advertising	570
261	Other publicity	399
<u>1,463</u>	Total	<u>1,467</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

8. Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2007/08 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.

2006/07		2007/08	
£000	Income and related expenditure	£000	% of net operating expenditure
541	Scottish Water	572	0.12%
275	Northern Joint Police Board	305	0.06%
164	Highland and Islands Fire Board	173	0.03%
	Highland and Western Isles Valuation Joint		
84	Board	57	0.01%
25	Highland and Islands Transport Partnership	25	0.01%

9. Members Allowances and Expenses

In May 2007 new regulations on remuneration of members was introduced. Details of the remuneration paid to members in 2007/08 were as follows:

2006/07		2007/08	
£000		£000	
-	Remuneration	1,342	
971	Salaries and allowances	-	
403	Travel and Subsistence	328	
104	All Other expenses	52	
<u>1,478</u>	Total	<u>1,722</u>	

10. Employee Remuneration

In 2007/08 the number of employees receiving remuneration above £50,000, including redundancy and retirement pay where appropriate, are as follows:

2006/07	Remuneration Bandings	2007/08
No		No
52	£ 50,000 - £ 59,999	45
17	£ 60,000 - £ 69,999	24
1	£ 70,000 - £ 79,999	5
-	£ 80,000 - £ 89,999	-
7	£ 90,000 - £ 99,999	-
1	£100,000 - £109,999	4
-	£110,000 - £119,999	-
1	£120,000 - £129,999	1
-	£130,000 - £139,999	-
-	£140,000 - £149,999	-
-	£150,000 - £159,999	1

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Trading Operations

Financial year 2007/08 is the fifth 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 2008.

The Council has established 7 trading operations which operate in a commercial environment and generate income from fees and charges to other parts of the Council or other organisations. In accordance with the Local Government (Scotland) Act 2003 significant trading operations are required to break even over a rolling three year period

Details of significant trading operations are as follows:-

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 an appropriate surplus, given trading conditions. Provision has been made for staff who have an entitlement to an equal pay compensation package. Additional payments have been made by the Council to the trading operations as a legitimate claim for unforeseen expenditure within the contract.

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.

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 £0.420m in 2007/08.

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.

Provision has been made for staff who have an entitlement to an equal pay compensation package. Additional payments have been made by the Council to the trading operations as a legitimate claim for unforeseen expenditure within the contract.

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.

Provision has been made for staff who have an entitlement to an equal pay compensation package. Additional payments have been made by the Council to the trading operations as a legitimate claim for unforeseen expenditure within the contract.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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 Government. Income is generated by a time recording system based on recovery costs. The target is to make a small surplus.

Summary of Financial Results

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

	2007/08		
	Turnover	Expenditure	Surplus/ (deficit)
	£000	£000	£000
Roads and Community Works	36,556	33,079	3,477
Fishery Piers and Harbours	14,036	14,075	(39)
Building Maintenance	12,357	11,933	424
Catering	9,546	9,414	132
Building Cleaning	6,031	5,830	201
Vehicle Maintenance	4,002	3,571	431
Project Design	3,120	2,525	595
	<u>85,648</u>	<u>80,427</u>	<u>5,221</u>

Reconciliation to Income and Expenditure Account

	£000
Surplus on trading operations	5,221
Less internal surplus included in respective services net expenditure	(4,975)
Less interest on revenue balances	(137)
Surplus on trading operations as per Income and Expenditure Account	<u>109</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Cumulative surplus three years to 31 March 2008

	2005/06 £000	2006/07 £000	2007/08 £000	3 year surplus/(deficit) £000
Roads and Community Works	907	1,587	3,477	5,971
Fishery Piers and Harbours	500	55	(39)	516
Building Maintenance	397	356	424	1,177
Catering	35	(12)	132	155
Building Cleaning	81	(27)	201	255
Vehicle Maintenance	141	272	431	844
Project Design	71	432	595	1,098
	<u>2,132</u>	<u>2,663</u>	<u>5,221</u>	<u>10,016</u>

12. Community Care Partnership Schemes

During 2007/08, 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 2007/08, 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 £215m during 2007/08. The budgets are currently aligned, which means that each Partner organisation 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 £73.7m (2006/07 £68.7m) in respect of the specific services, and this can be analysed as follows:

2006/07 £m		2007/08 £m
44.6	Older People	47.0
13.6	People with Learning Disability	14.7
4.7	People with Mental Illness	5.2
5.2	People with a Physical Disability	6.0
0.6	People Misusing Drugs/Alcohol	0.8

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

13. 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.

Central Government

The Scottish Government 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 is set out in Note 44 to the Core Statements.

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 2007/08, the Pension Fund had a closing deposit with the Council's loans fund of £3.685m (2006/07 £6.805m). The Council paid the Pension Fund interest of £0.203m (2006/07 £0.228m) on the average deposits throughout the year. The Council charged the Pension Fund £0.719m (2006/07 £0.709m) for expenses incurred in administering the Pension Fund.

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.

Loch Ness and Highland Horizons Limited (LNHH)

LNHH is a company which was established in 1994 whose principal activity is to let the Inverness Aquadome to Caledonia Community Leisure Limited which is the operator of the facility.

LNHH is a wholly owned subsidiary of Highland Council with a shareholding of £1.215m.

NOTES TO THE CORE FINANCIAL STATEMENTS

At a meeting held on 6 March 2008 Highland Council agreed that LNHH will be wound up and that the assets of that company will be transferred to the ownership of the Highland Council at a nominal sum. The company will be wound up during financial year 2008/09. The investment by the Highland Council has been written down to £0.670m at 31 March 2008 being the net assets of the company at the date of the latest balance sheet.

A summary of the latest (audited) results of LNHH is provided below:

Financial Year End	Net Assets	Loss before taxation	Loss After taxation
	£000	£000	£000
31 March 2007	670	(38)	(38)
31 March 2006	709	(127)	(127)

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.

The latest available audited results of the Company are as follows:

Financial Year End	Net Assets	Loss before taxation	Loss after taxation
	£000	£000	£000
31 March 2007	1,056	(240)	(240)
31 March 2006	1,270	(84)	(84)

Highland 2007 (H2007)

H2007 was incorporated on 8 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 2007/08 Highland Council contributed £0.645m 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/ (Liabilities)	Profit/(loss) before taxation	Profit/(loss) After taxation
	£000	£000	£000
31 March 2007	(287)	-	-
31 March 2006	973	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

14. 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:

2006/07 £000		2007/08 £000
303	Audit Fee	311
170	Fixed Charge	177
<u>473</u>	Total	<u>488</u>

In 2006/07 an additional amount of £0.02m was payable to Audit Scotland in respect of audits of ERDF grant claims and Whole of Government Accounts returns.

15. 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 2007/08 was £7.031m (2006/07 £6.752m). Council services incurred direct charges totalling £4.983m (2006/7 £4.554m) for specific enhancements over and above the basic contract. In total the annual service charge in 2007/08 amounted to £12.014m (2006/07 £11.306m). The total amount payable under the contract from 1 April 2008 until 30 June 2008 is £3.027m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £0.350m over the remaining 4 months of the contract.

A one year extension to this contract has been agreed between the Council and Fujitsu Services Ltd with the extension commencing from July 2008. The value of the one year contract is £8.780m of which £6.585m will be payable in 2008/09 and the remaining balance of £2.195m being payable in 2009/10.

(b) The Council signed a PFI contract with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this contract in 2007/08 was £3.139m (2006/07 £3.065m). 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 £62.1m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £30.0m 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. The first 5 primary schools became available to the Council during 2007/08 and the Council paid a Unitary Charge of £2.733m to reflect the phased introduction for these schools. The remaining schools will become available on a phased basis during 2008/09 with the last of the external

NOTES TO THE CORE FINANCIAL STATEMENTS

works etc being available in 2009/10. The first full year of the contract will be 2010/11 when the full unitary charge will be payable to Alpha Schools (Highlands) Ltd.

The Unitary 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.

Based on the scheduled phasing of the schools yet to be made available, the total amount of unitary charge payable by the Council over the 30 year contract term is estimated to be £620.7m. (est. cash prices). The Council receives Revenue Support of £7.16m p.a. from the Scottish Government towards these costs. This support is estimated to amount to £214.8m over the term of the contract.

16. Financial Reporting and the Euro

- (a) There are no commitments as at 31 March 2008 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.

17. Significance of the Statement of Movement on the General Fund Balance

The Statement of Movement on the General Fund Balance summarises the differences between the outturn on the Income and Expenditure Account, which properly includes elements not chargeable for Council Tax calculation purposes 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 Statement of Movement on the General Fund Balance 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 2008. The General Fund balance represents funds available for future use.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2006/07 £000		2007/08 £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		
	- Impact of Financial Instruments	2,372	
(25,763)	Depreciation & Impairment of fixed assets	(51,271)	
6,535	Amortisation	4,356	
(273)	Net Gain/(Loss) on Sale of Fixed assets	1,007	
343	PPP Long Term Debtors Residual Value	1,093	
(22)	PPP FRS 5 rental adjustments	(187)	
(14,471)	Net charges made for retirement benefits in accordance with FRS 17	(19,766)	
<u>(33,651)</u>			(62,396)
	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		
23,198	Loans Fund Principal repayments	24,825	
1,036	Capital Expenditure Charged to the General Fund (CFCR)	1,271	
20,012	Employers contributions payable to the Pensions Account and retirement benefits payable direct to pensioners	21,243	
<u>44,246</u>			47,339
	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.		
(24)	Transfer HRA deficit to Balances	(89)	
(493)	Transfer to/(from) HRA Balances	-	
2,945	Transfer to/(from) Capital Fund	4,300	
(53)	Transfer to/(from) Repair & Renewals Fund	90	
521	Transfer to/(from) Insurance Fund	192	
<u>2,896</u>			4,493
<u>13,491</u>	Net additional amount required to be debited/(credited) to the General Fund balance for the year		<u>(10,564)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

19. 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 Operational Assets (note iii) £000	Total £000
GROSS BOOK VALUE ⁽ⁱ⁾							
At 1 April 2007	510,074	616,783	9,568	222,374	919	31,757	1,391,475
Additions	7,668	4,591	4,978	20,147	36	3,313	40,733
Disposals	(9,137)	-	(6)	-	-	(1,863)	(11,006)
Revaluations	-	3,475	-	-	-	524	3,999
Impairments	(525)	(670)	-	-	-	(873)	(2,068)
Reclassifications	-	(1,336)	-	-	-	1,336	-
At 31 March 2008	508,080	622,843	14,540	242,521	955	34,194	1,423,133
DEPRECIATION							
At 1 April 2007	-	-	-	-	-	-	-
Charge for year	6,859	9,901	1,811	6,788	-	188	25,547
On disposals	-	-	(2)	-	-	(18)	(20)
Reclassifications	-	-	-	-	-	-	-
At 31 March 2008	6,859	9,901	1,809	6,788	-	170	25,527
NET BOOK VALUE ⁽ⁱⁱ⁾							
At 31 March 2008	501,221	612,942	12,731	235,733	955	34,024	1,397,606
At 1 April 2007	510,074	616,783	9,568	222,374	919	31,757	1,391,475

NOTES TO THE CORE FINANCIAL STATEMENTS

Note (i) Gross Book Value represents the historic cost of assets at 1 April 2007.

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 2007	22,637	5,108	4,012	31,757
Additions	115	3,198	-	3,313
Disposals	-	-	(1,863)	(1,863)
Revaluations	109	-	415	524
Impairments	(288)	-	(585)	(873)
Reclassifications	(147)	(450)	1,933	1,336
At 31 March 2008	22,426	7,856	3,912	34,194
DEPRECIATION				
At 1 April 2007	-	-	-	-
Charge for year	135	-	53	188
On revalued assets	-	-	-	-
On disposals	-	-	(18)	(18)
Reclassifications	-	-	-	-
At 31 March 2008	135	-	35	170
NET BOOK VALUE				
At 31 March 2008	22,291	7,856	3,877	34,024
At 1 April 2007	22,637	5,108	4,012	31,757

NOTES TO THE CORE FINANCIAL STATEMENTS

20. Financing of Capital Expenditure

The sources of finance for capital expenditure were as follows:

2006/07 £000		2007/08 £000
2,864	Government Grants	13,522
14,933	Capital Receipts Applied	13,069
1,972	EEC & Lottery Grants	1,351
12,452	Public & Private Sector Contributions	3,256
1,016	Miscellaneous Income	1,549
1,036	Capital from current revenue	1,271
1,284	Capital Fund	-
28,801	Borrowing	30,390
64,358		64,408

21. Commitments under Capital Contracts

As at 31 March 2008, the total value of legal commitments on capital contracts was £65.491m (31 March 2007 £40.077m).

22. Analysis of Assets Held

Assets Held 2006/2007 Number		Assets Held 2007/2008 Number
14,107	Council Dwellings	13,872
54	Travelling People Sites	49
156	Nursery Schools/Units	153
184	Primary Schools	184
29	Secondary Schools	29
20	Residential Homes (elderly)	20
8	Residential Homes (children)	8
3	Residential Homes (learning disabilities)	3
250	Industrial and Commercial Units	250
46,507	Street Lighting Units	47,321
577	Parks and Open Spaces	577
236	Cemeteries and Crematorium	236
17	Landfill Sites	17
2,418 km	Non Principal Roads	2,418 km
2,888 km	Unclassified Roads	2,905 km

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Gross Assets Recognised under PFI Arrangements

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

24. Valuation bases of fixed assets

Generally, assets are revalued 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

(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 2005. 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

25. Operating Lease Income

2006/07 £000		2007/08 £000
<u>2,934</u>	Aggregate rentals received in the year	<u>5,733</u>
<u>43,241</u>	Gross amounts of assets held for use in operating leases	<u>43,241</u>
<u>1,154</u>	Accumulated depreciation charges on assets held for use in operating leases	<u>1,634</u>

26. Operating Lease Payments

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

Payments 2006/07 £000		Payments 2007/08 £000
1,461	Land and Buildings	3,181
<u>7,735</u>	Vehicles, Plant & Equipment	<u>6,561</u>
<u>9,196</u>	Total	<u>9,742</u>

27. Operating Lease Obligations

At 31 March 2008 the Council was committed to making payment of £6.882m in respect of operating leases in 2008/09 as follows: :

Date of Expiry of Lease	Land and Buildings Leases	Other operating leases	Total
	£000	£000	£000
Before 31 March 2009	166	780	946
Between 01 April 2009 and 31 March 2013	2,040	3,593	5,633
After 1 April 2013	818	743	1,561
	<u>3,024</u>	<u>5,116</u>	<u>8,140</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

28. Long Term Debtors

31/03/07 £000		31/03/08 £000
20,371	Debt advanced to Police Joint Board	19,413
14,518	Debt advanced to Fire Joint Board	13,348
342	House Loans	265
50	Car Loans to staff	63
1,000	Cairngorm Funicular Loan	1,000
(1,000)	Less: provision	(1,000)
1,716	PPP Residual Debtors	2,809
4,923	Highland Housing Alliance	5,377
149	Other loans	147
42,069	Total	41,422

29. Financial instruments balances

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

	Long term		Current		Total	
	31/03/08 £000	31/03/07 £000	31/03/08 £000	31/03/07 £000	31/03/08 £000	31/03/07 £000
Borrowings						
Financial liabilities at amortised cost	574,345	579,529	23,610	24,558	597,955	604,087
Cash Overdrawn	-	-	4,659	3,889	4,659	3,889
Total	574,345	579,529	28,269	28,447	602,614	607,976
 Investments						
Loans and receivables	1,850	2,395	47,688	59,401	49,538	61,796
Total	1,850	2,395	47,688	59,401	49,538	61,796

NOTES TO THE CORE FINANCIAL STATEMENTS

30. Financial instrument gains and losses

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

	Financial Liabilities	Financial Assets		Total £000
	Liabilities measured at amortised cost £000	Loans and receivables £000	Available- for-sale assets £000	
Interest expense	(37,115)	-	-	(37,115)
Losses on derecognition	(45,509)	-	-	(45,509)
Impairment losses	-	-	-	0
Interest payable and similar charges	(82,624)	-	-	(82,624)
Interest income	-	4,001	-	4,001
Gains on derecognition	1,338	-	-	1,338
Interest and investment income	1,338	4,001	-	5,339
Gains on revaluation			-	
Losses on revaluation			-	
Amounts recycled to the Income & Expenditure Account after impairment			-	
Surplus arising on revaluation of financial assets			-	
Net gain/(loss) for the year	(81,286)	4,001	0	(77,285)

31. Nature and extent of risks arising from financial instruments

The activities of the Council expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Audit and Scrutiny Committee. The Council provides written principles for overall risk management as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

NOTES TO THE CORE FINANCIAL STATEMENTS

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are not made with banks and financial institutions unless they are rated independently by Fitch with a minimum score of F1,A,B,3. The authority has a policy of not lending more than £15m of its surplus balances to one institution for a maximum of 364 days.

The Council does not offer credit terms to customers. All trade and other payables are due to be paid on the invoice date.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2008 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2008 %	Estimated maximum exposure to default and uncollectability £000
Deposits with banks and financial institutions	49,492	-	-	-
Investments in subsidiaries	670	-	-	-
Bonds & Other Securities	1,850	-	-	-
Customers	11,791	13.1	13.1	1,546
	63,803	13.1	13.1	1,546

The Council does not generally have negotiable credit terms for customers such that the balance is past its due date for payment. The overdue payment is immediately due. The past due amount can be analysed by age as follows:

	£000
Less than three months	10,702
Three to six months	366
Six months to one year	723
More than one year	-
	<u>11,791</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Market risk

	£000s
Increase in interest payable on variable rate borrowings	452
Increase in interest receivable on variable rate investments	606
Increase in government grant receivable for financing costs	-
Impact on Income and Expenditure Account	<u>1,058</u>
Share of overall impact debited to the HRA	279
Decrease in fair value of 'available for sale' investment assets (no impact on STRGL)	-
Decrease in fair value of fixed rate borrowing liabilities (no impact on I&E account or STRGL)	87,016
Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	115

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For example, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will increase
- borrowings at fixed rates – the fair value of the liabilities borrowings will decrease
- investments at variable rates – the interest income credited to the Income and Expenditure Account will increase
- investments at fixed rates – the fair value of the assets will decrease

Borrowings are not carried at fair value, so normal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or Statement of Movement on the General Fund Balance. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The Council has a number of strategies for managing interest rate risk. Policy is to set upper limits for fixed and variable rate borrowings based on the Council's annual capital financing requirement. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

NOTES TO THE CORE FINANCIAL STATEMENTS

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the annual budget setting process. This allows any adverse changes to be accommodated.

Price risk

The Council does not invest in equity shares.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Liquidity Risk

31 March 2007 £000	Loans outstanding	31 March 2008 £000
461,296	Public Works Loans Board	455,973
120,131	Market debt / LOBOs	118,407
0	Temporary borrowing	116
22,660	Other	23,459
604,087	Total	597,955
24,558	Less than 1 year	23,610
36	Between 1 and 2 years	-
0	Between 2 and 5 years	5,000
1,750	Between 5 and 10 years	-
577,743	More than 10 years	569,345
604,087	Total	597,955

NOTES TO THE CORE FINANCIAL STATEMENTS

32. Provisions

	31/03/07 £000	Movement £000	31/03/08 £000
Long term debtor provision *			
Loan to Cairngorm Mountain Ltd	1,000	-	1,000
Stock provision *	145	-	145
Bad debt provision			
Council Tax	20,778	451	21,229
Community Charge	9,610	(3,516)	6,094
Non Domestic Rates	6,361	(263)	6,098
Sundry debtors	1,765	412	2,177
Housing Rents (HRA)	2,350	306	2,656
	<u>40,864</u>	<u>(2,610)</u>	<u>38,254</u>
Other provisions			
Insurance provision	121	317	438
Equal pay provision	125	4,577	4,702
Caithness Heat & Power Limited	-	6,800	6,800
Single status provision	3,925	(3,925)	-
Management restructure provision	1,569	(1,569)	-
	<u>5,740</u>	<u>6,200</u>	<u>11,940</u>
Total provisions	<u><u>47,749</u></u>	<u><u>3,590</u></u>	<u><u>51,339</u></u>

* These provisions are netted off the appropriate assets in the balance sheet.

Following a detailed review of stock in the Transport, Environment and Community Service during 2006/07 obsolete stock was identified. Committee approval will be sought during 2008/09 to write off the obsolete stock.

At 31 March 2008 a provision of £6.8m has been made to meet any liabilities which may result from financial guarantees given in favour of Clydesdale Bank PLC in respect of Caithness Heat and Power Limited.

An initial equal pay settlement was made in 2005/06 covering the five years to 30 September 2006. It is proposed to make a further settlement covering the subsequent 18 months to 31 March 2008. Provision of £4.702m has been made for the further Equal Pay settlement.

NOTES TO THE CORE FINANCIAL STATEMENTS

33. Net Asset Analysis

As at 31 March 2007 £000		As at 31 March 2008 £000
180,210	General Fund	179,538
515,440	Housing Revenue Account	504,523
5,297	Trading Operations	3,046
700,947	Total	687,107

34. Movements on Reserves

	As at 1 April 2007 £000	Gains/ Losses in year £000	Surplus/ (Deficit) £000	Transfers Between Reserves £000	As at 31 March 2008 £000
General Fund	30,133		5,446	(5,970)	29,609
Housing Revenue Account	8,893	-	-	(89)	8,804
Insurance Fund	540	-	-	192	732
Revaluation Reserve	-	3,999	-	-	3,999
Capital Adjustment Account	759,424	-	(17,664)	-	741,760
Capital Receipts Reserve	5,396		(2,551)		2,845
Financial Instruments Adjustment Account	(45,162)	-	2,329	-	(42,833)
Repairs and Renewals Fund	1,285	-	-	90	1,375
Capital Fund	20,769	-	1,416	4,300	26,485
Pensions Reserve	(80,331)	(6,815)	-	1,477	(85,669)
Total	700,947	(2,816)	(11,024)	-	687,107

35. Contingent Liabilities

Scrabster Harbour Trust

The Council has guaranteed three loans from the Public Works Loan Board (PWLB) to Scrabster Harbour Trust. The Harbour Trustees' current loan obligations to the PWLB comprise half yearly repayments of principal and interest. As at 31 March 2008, the first loan (expiry December 2018) had a balance of £1.149m (total annual repayment £0.66m), the second loan (expiry March 2021) had a balance of £0.413m (total annual repayment £0.018m). A third loan for £3.1m is still, as at 31 March 2008, 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 2008 is £0.381m.

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.

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.

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.

Scottish Redundant Churches Trust

The Council agreed in April 2007 to act as guarantor for the Scottish Redundant Churches Trust in respect of a loan of £250,000 from the Architectural Heritage Fund for the restoration of Cromarty East Church.

Equal Pay and Job Evaluation

In common with other Scottish Local Authorities, the Council is progressing arrangements to modernise employment conditions for staff.

Equal pay settlements represent backdated settlements covering the period prior to the implementation of job evaluation and modernised pay and conditions arrangements. An initial settlement with approximately 2,500 staff was made in 2006/07 covering the five years to 30 September 2006, and it is proposed to make a further settlement covering the subsequent 18 months to 31 March 2008. New pay and conditions would then apply from 1 April 2008. Provision of £4.702m has been made for the further Equal Pay settlement in the 2007/08 Accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

Job Evaluation, and the new modernised pay and conditions, will apply from 1 April 2008, and applies to all staff with the exception of Teachers, Craft Workers and Directors. Approximately 9,400 staff will be covered by the new arrangements. The Council has provided for the estimated costs of job evaluation within the 2008/09 budget, with costs in that year currently estimated at £8.7m.

While provision has been made for the estimated costs of both equal pay and job evaluation in the relevant years, there is the possibility of further costs arising as a result of; changes to the scheme following negotiations with staff and unions, additional equal pay claims or appeals against job evaluation outcomes.

It is not possible to assess the cost impact of these possible changes, or the likelihood of any outcome. Therefore no provision for these outcomes has been made in any year and disclosure is by way of contingent liability

Caithness Heat and Power Limited

The Council, as the applicant is obliged to meet the terms and conditions of grant funding awarded to Caithness Heat and Power Limited from the Energy Savings Trust. The maximum amount repayable is £2.9m.

36. Insurance Fund

Using powers in Schedule 3 of the Local Government Scotland Act 1975 the Council has established an Insurance Fund to meet uninsured losses or surpluses. Premiums of £0.150m charged to Services in 2007/08 were added to the fund. This fund enables the Council to self insure General Fund properties against the risks of storm, flood, burst pipes and malicious damage.

37. Post Balance Sheet Events and Authorisation of Accounts

At a meeting held on 8 May 2008, The Highland Council agreed to write off a loan of £1m which had been granted to Cairngorm Mountain Limited in 2000/01 and 2001/02. As shown in note 32 above full provision for this amount was made in the accounts in prior years and therefore there will be impact on the Income and Expenditure Account in 2008/09.

At a meeting held on 1 August 2008 Highland Council agreed to assume control of Caithness Heat and Power Ltd. The financial statements include a provision of £6.8m for financial guarantees and a contingent liability of £2.9 million in respect of the possible repayment of grant funding received by the company from the Energy Savings Trust if funding conditions are not fulfilled.

The Depute Chief Executive and Director of Finance signed and authorised the Statement of Accounts for issue on 26 June 2008. Events after the date of the Balance Sheet (31 March 2008) up to the date of signing have been considered in preparing these accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

38. 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	%
2007/08	(74,840)	(13.1)	-	-	68,025	79.4
2006/07	9,265	1.55	411	-	32,112	40.0
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		

39. 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 the Statement of 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 2008, the Highland Council Pension Fund's assets and liabilities attributable to Highland Council amounted to:

As at 31 March 2007 £000		As at 31 March 2008 £000
598,072	Estimated assets in the scheme	570,195
(649,956)	Estimated liabilities in the scheme	(627,913)
(28,447)	Estimated liabilities for Discretionary pensions	(27,951)
(80,331)	Net pension liability	(85,669)

The liabilities show the underlying commitments that the Council has to pay retirement benefits. The net pension liability of £85.669m exceeds the current General Fund reserve of £31.613m by £54.056m. 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 FINANCIAL STATEMENTS

The net movement on the net pension liability is analysed as follows:

As at 31 March 2007 £000		As at 31 March 2008 £000
(127,290)	Opening pension liability	(80,331)
(25,167)	Current service cost	(22,029)
7,040	Past service cost	(1,532)
(13)	Settlements and curtailments	(1,838)
(32,959)	Interest cost	(36,780)
36,628	Return on assets	42,413
20,012	Employers contributions	21,243
41,418	Actuarial gains/ (losses)	(6,815)
(80,331)	Net pension liability	(85,669)

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 2008 by Barnett Waddingham, the independent actuaries to the Council. The main assumptions used in the calculation are:

As at 31 March 2007 %		As at 31 March 2008 %
3.2	Price increases	3.7
4.7	Salary increases	5.2
3.2	Pension increases	3.7
5.4	Discount Rate	6.6

The discount rate employed for the 2007/08 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 15 years) at 31 March 2007 as required by the SORP.

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

As at 31 March 2007			As at 31 March 2008	
Market Value £000	Assumed rate of return %		Market Value £000	Assumed rate of return %
425,227	7.8	Equity Investments	396,452	7.7
-	-	Gilts *	51,082	4.3
92,069	4.9	Bonds	46,899	6.6
69,307	5.8	Property	65,609	5.7
11,470	4.9	Cash	10,153	5.0
598,073	7.1	Total	570,195	7.0

* In 2006/07 Gilts were included with Bonds

NOTES TO THE CORE FINANCIAL STATEMENTS

40. 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 Government on the basis of a notional fund. In 2007/08 the Highland Council paid £12.571m (2006/07 £11.321m) to the Scottish Government in respect of Teachers' pension costs, which represents 13.50% (2006/07 12.50%) 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 2007/2008 these amounted to £0.72m (2006/07 £0.69m) representing 0.77% (2006/07 0.76%) 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 2007/08 the Highland Council paid an employer's contribution of £19.1m (£18.4m) into the Fund, representing 16.55% (15.93%) 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 2007/08, 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 2008. 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 2007/08.

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.

2006/07 £000		2007/08 £000	2007/08 £000
20,012	Employers contributions payable to the scheme		21,242
	Less FRS 17 Charges:		
25,167	Current Service Cost	22,029	
(7,040)	Past Service Cost	1,532	
13	Curtailment and Settlements	1,838	
32,959	Pension Interest Cost	36,780	
(36,628)	Expected Return on Assets in the scheme	(42,413)	19,766
5,541	Contribution to/(from) Pension Reserve		1,476

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2006/2007 £000		2007/2008 £000	2007/2008 £000
(22,622)	Income and Expenditure Account (surplus)/deficit for year		11,088
	Non Cash Items		
5,541	FRS 17 transactions	1,477	
(18,109)	Interest Paid/ Received	(24,187)	
(25,763)	Depreciation	(51,272)	
	Amortised Govt Grants and Capital		
6,535	Contributions	4,356	
-	- Premiums & discounts written off	(1,598)	
-	- Amounts written off long term investments	(545)	
1,036	Capital Funded from Current Revenue	1,271	
321	FRS 5 – PPP adjustments	907	
(273)	Gain/Loss on Sale of Assets	1,007	
(30,712)			(68,584)
	Items on Accruals Basis		
742	(Increase) / Decrease in Stocks	(516)	
2,881	(Increase) / Decrease in Debtors	2,761	
(33,995)	Increase / (Decrease) in Creditors	12,796	
1,397	Increase /(Decrease) in Provisions	(3,590)	
			11,451
(82,309)	NET CASH OUTFLOW FROM REVENUE ACTIVITIES		(46,045)

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

Analysis of Net Debt	1 April 2007 £000	Cash Flow £000	31 March 2008 £000
Cash in hand	(123)	2	(121)
Overdrafts	3,889	770	4,659
Sub-total (A)	3,766	772	4,538
Debt due within one year	24,558	(948)	23,610
Debt due after one year	579,529	(5,184)	574,345
Sub-total (B)	604,087	(6,132)	597,955
Current Asset Investments	(59,401)	11,713	(47,688)
Other Liquid Resources	(12,665)	2,892	(9,773)
Sub-total (C)	(72,066)	14,605	(57,461)
Total (A)+(B)+(C)	535,787	9,245	545,032

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	1 April 2007	Cash Flow	31 March 2008
	£000	£000	£000
Management of Liquid Resources			
Short Term Investments	(59,401)	11,713	(47,688)
Other Liquid Resources	(12,665)	2,892	(9,773)
	(72,066)	14,605	(57,461)
Management of Financing			
Temporary Loans	1,215	(1,099)	116
PWLB Loans	461,296	(5,323)	455,973
Money Market Loans	118,916	(509)	118,407
Other Authorities	22,660	799	23,459
Net Financing - per Cash Flow Statement	604,087	(6,132)	597,955

44. Analysis of Other Government Grants

2006/2007		2007/2008
£000		£000
(136)	Housing Support Grant	(111)
(12,406)	Housing Benefit	(12,422)
	<u>Specific Grants</u>	
(1,175)	Gaelic	(951)
(11,363)	Education National Priorities Action Fund	(12,850)
(598)	Mental Illness	(598)
(283)	Social Work Training	(225)
(351)	Supported Employment	(369)
(26,312)		(27,526)

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

2006/07 £000		2007/08 £000	£000
	Income		
(37,763)	Dwelling Rents (gross)	(38,736)	
(1,613)	Non-Dwelling Rents (gross)	(1,612)	
(136)	Housing Support Grants	(229)	
(3,509)	Other Income	(2,629)	
(43,021)	Total Income		(43,206)
	Expenditure		
13,373	Repairs and Maintenance	19,127	
7,608	Supervision and Management	9,158	
7,171	Depreciation and impairment of fixed assets	7,583	
5,069	Other Costs	2,305	
33,221	Total Expenditure		38,173
(9,800)	Net cost of HRA services per the Council's Income and Expenditure Account		(5,033)
684	HRA Share of Corporate and Democratic Core		543
(290)	HRA share of non Distributed Costs		319
(9,406)	Net cost of HRA services		(4,171)
8	Gain or loss on disposal of fixed assets		(354)
8,458	Interest payable and similar charges		8,277
529	Amortisation of premiums/discounts		(527)
(194)	Interest and investment income		(389)
(232)	Pensions interest cost and expected return on pension assets		(312)
(837)	Deficit/(surplus) for the year on HRA services		2,524

**STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE FOR
THE YEAR ENDED 31 MARCH 2008**

2006/07 £000		2007/08 £000	£000
(837)	Deficit/(surplus) for the year on HRA Services		2,524
	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		
	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		413	
(8)	Net gain or loss on sale of fixed assets	354	
(7,172)	Depreciation and Impairment of fixed assets	(12,594)	
-	Impact of Financial Instruments	527	
320	Government Grants and Capital Contributions amortised matching depreciation and impairments	949	
-	Capital Expenditure Charged to the HRA	779	
351	FRS 17 Pension Costs different from contributions due under pension scheme regulations	82	
7,002	Statutory provision for repayment of debt	7,055	
493	Transfer to/from the General Fund	-	
<hr/>			<hr/>
517	Decrease in the HRA balance		2,435
			89
9,410	Housing Revenue Account Balance brought forward		8,893
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8,893	Housing Revenue Account Balance carried forward		8,804
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NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent Arrears

Rent arrears were as follows:

2006/07		2007/08
Actual		Actual
£000		£000
1,375	Current tenants	1,583
<u>1,633</u>	Former tenants	<u>1,829</u>
<u><u>3,008</u></u>	Total	<u><u>3,412</u></u>

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 £2.177m in Note 32 to the Core Statements.

	31/03/07	Movement	31/03/08
	£000	£000	£000
Provision for rent arrears	2,350	306	2,656
Provision for sundry debts	<u>394</u>	<u>52</u>	<u>446</u>
Total provision	<u><u>2,744</u></u>	<u><u>358</u></u>	<u><u>3,102</u></u>

3. Housing Stock

The Council's housing stock was as follows:

31/03/07		31/03/08
Number	Size	Number
176	1 Apartment	190
3,453	2 Apartment	3,392
5,693	3 Apartment	5,614
4,383	4 Apartment	4,279
390	5 Apartment	366
10	6 Apartment	28
1	7 Apartment	1
1	8 Apartment	1
-	10 Apartment	1
<u><u>14,107</u></u>	Total	<u><u>13,872</u></u>

COUNCIL TAX INCOME ACCOUNT

2006/2007 £000		2007/2008 £000
116,540	Gross Council Tax Levied and Contributions in lieu	121,844
40	Council Tax Benefits (net of Government Grants)	(21)
(14,942)	Other Discounts and Reductions	(15,458)
(2,672)	Provision for Bad and Doubtful Debts	(2,812)
1,838	Prior Year Adjustments	1,367
<u>100,804</u>	Net Council Tax Income for the Year	<u>104,920</u>
<u>100,804</u>	Net Council Tax Income transferred to General Fund	<u>104,920</u>

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

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 88,321 band D equivalents in 2007/08.

The charge for a band D property (£1,163 in 2007/2008) 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 2008 the total provision is £27.323m (31 March 2007 £30.388m). Details of all bad debt provisions are provided in note 32 to the Core Statements.

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

4 Calculation of the Council Tax base 2007/08

2006/07		Bands									2007/08
Total Number		A (dbr)*	A	B	C	D	E	F	G	H	Total Number
106,609	Properties	-	20,129	22,780	21,187	16,356	16,041	7,418	3,562	328	107,801
(4,871)	Exemptions	-	(1,508)	(1,056)	(821)	(567)	(417)	(173)	(97)	(25)	(4,664)
(621)	Disabled relief	-	(44)	(105)	(131)	(113)	(140)	(62)	(28)	(2)	(625)
621	Disabled relief - reduced band	44	105	131	113	140	62	28	2	-	625
(9,018)	Discounts 25%	(4)	(2,502)	(2,403)	(1,841)	(1,095)	(806)	(270)	(108)	(7)	(9,036)
(2,900)	Discounts 50%	-	(477)	(510)	(645)	(489)	(423)	(193)	(138)	(43)	(2,918)
89,820	Effective properties	40	15,703	18,837	17,862	14,232	14,317	6,748	3,193	251	91,183
	Ratio to band D	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
86,657	Band D equivalents	22	10,468	14,651	15,878	14,232	17,499	9,747	5,322	502	88,321
174	Contributions in lieu										169
86,831	Total										88,490
(2,605)	Bad debt provision 3%										(2,655)
84,226	Council Tax base										85,835
	A (dbr)* - Band A properties with disabled band reduction										

5 Number of Properties per Band

2006/07		Bands									2007/08
Total Number		A	B	C	D	E	F	G	H	Total Number	
6,937	Badenoch & Strathspey	391	1,401	1,644	949	1,438	738	483	47	7,091	
12,642	Caithness	6,674	1,958	1,585	1,745	644	106	21	7	12,740	
32,951	Inverness	4,220	8,235	5,952	5,571	5,558	2,813	1,301	106	33,756	
9,596	Lochaber	566	1,690	3,949	1,062	1,526	655	226	35	9,709	
5,602	Nairn	450	1,203	1,173	1,004	1,016	521	287	35	5,689	
24,300	Ross & Cromarty	4,648	5,282	4,233	3,499	3,860	1,941	1,021	67	24,551	
6,997	Skye & Lochalsh	706	1,303	1,468	1,532	1,186	309	93	12	6,609	
7,584	Sutherland	2,474	1,708	1,183	994	813	335	130	19	7,656	
106,609	Total Properties	20,129	22,780	21,187	16,356	16,041	7,418	3,562	328	107,801	

	Bands								
	A (dbr)*	A	B	C	D	E	F	G	H
Charge 2007/08	£646.11	£775.33	£904.56	£1,033.78	£1,163.00	£1,421.44	£1,679.89	£1,938.33	£2,326.00
Charge 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

A (dbr)* - Band A properties with disabled band reduction

NON DOMESTIC RATE INCOME ACCOUNT

2006/07 £000		2007/08 £000	£000
96,140	Gross rates levied and contributions in lieu	96,419	
(14,496)	Less reliefs & other deductions	(14,684)	
(16)	Payment of Interest	(480)	
(862)	Rates written off and provision for write offs	(662)	
80,766			80,593
	Prior year adjustments		
4,790	Pool years	(4,644)	
7	Pre pool Years	11	
4,797			(4,633)
85,563	Net non-domestic rate income		75,960
	Allocated to:		
86,019	Contribution to national non-domestic rates pool	76,409	
7	Adjustment for pre-pool years	11	
(463)	Discretionary relief costs payable by Council	(460)	
85,563	Net non-domestic rate income		75,960
78,394	NDRI distributable amount	77,967	
(463)	Less discretionary relief costs payable by Council	(460)	
7	Add adjustments for prior years	11	
77,938	Net transfer to General Fund		77,518

National Non Domestic Rates Income (NNDR) is regulated by central government. The Scottish Government 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 Government. The Scottish Government redistributes the sums payable back to local authorities as part of the overall Finance settlement

The non-domestic rate poundages were as follows:

2006/07	Per £ of Rateable Value	2007/08	Per £ of Rateable Value
44.9p	Rateable Value under £29,000	44.1p	Rateable Value under £29,000
45.3p	Rateable Value over £29,000	44.4p	Rateable Value over £29,000

NON DOMESTIC RATE INCOME ACCOUNT

Analysis of Rateable Values as at 1 April 2007

As at 1 April 2006			As at 1 April 2007	
Number of Units	Rateable Values £000		Number of Units	Rateable Values £000
2,576	51,222	Shops	2,577	51,873
868	16,015	Public Houses and Hotels	880	16,006
1,601	20,602	Offices	1,613	22,367
2,708	31,715	Industrial Subjects	2,644	31,732
		Leisure, Entertainment, Caravans and Holiday Sites	3,868	14,495
3,665	14,087			
399	3,946	Garages and Petrol Stations	380	3,872
998	13,184	Cultural, Sporting Subjects, Education and Training	998	13,293
1,233	10,391	Public Service Subjects	1,221	10,481
2,086	56,112	Miscellaneous	2,052	57,006
16,134	217,274	Total	16,233	221,125

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 Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

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 six headings:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust public accountability

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 Assistant 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 Assistant 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 Depute Chief Executive and 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 were discharged through the presentation of the Internal Audit Annual Report to the Audit and Scrutiny Committee on 12 June 2008.

CORPORATE GOVERNANCE ASSURANCE STATEMENT

To ensure proper Council scrutiny, the Council considered a report by the Assistant Chief Executive on progress with the 2007/08 Local Code of Corporate Governance on 26 June 2008 and set objectives for the financial year 2008/09.

On the basis of the reports by the Assistant 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 2007/08 including completing the review of ward forums, review of complaints handling, development of performance management arrangements, strengthening consultation arrangements with community groups, implementing a performance review/appraisal system for Directors and Heads of Service, implementation of job evaluation, the continued roll-out of performance development plans for staff, continuing to deliver the management development programme, delivery of the Workforce Strategy and the completion of a Single Equality Plan.
- (ii) Take forward as planned those matters arising from the Assistant Chief Executive's report, submitted to the Council on 26 June 2008 relating to progress made in implementing the Code during 2007/08 and the suggested themes to be covered in 2008/09. New areas of work include delivery of the Single Outcome Agreement targets, implementation of ward performance reporting, completion of the review of political arrangements, development of an efficiency and improvement programme, completion of a review of the Asset Management Plan, completion of an Information Management Strategy, implement the findings of the Crerar Review, agree a Compact with the voluntary sector and introduce role descriptions and start to roll out personal development plans for Members.
- (iii) Complete the remaining actions in the Best Value Improvement Plan as reported to the Council in October 2007. These actions included the implementation of new structures at a political and managerial level, implementation of the workforce management action plan and the provision of ward reporting. In addition to this the Council will address any further issues raised by Audit Scotland, following their review of progress made, expected in August 2008.
- (iv) Complete the grade one actions highlighted in Internal Audit reports issued during 2007/08. These actions include ensuring that: the Council's arrangements with regard to the grants and assistance provided to the Voluntary Sector provide Best Value; the Council fully complies with the requirements of the Regulation of Investigatory Powers (Scotland) Act and demonstrating Best Value with regard to the arrangements for Building Cleaning.

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.

A S Park
Convenor

A Dodds
Chief Executive

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

PENSION FUND ACCOUNTS

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 costs 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 280% of employees' contributions was set by the Actuary for the period 1 April 2007 to 31 March 2008.

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 280% for 2007/08 and 290% for 2008/09 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 due at 31 March 2008 is currently being carried out.

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.

PENSION FUND ACCOUNTS

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:

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

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 ACCOUNTS

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

2006/07 £000		Notes	2007/08 £000
	Dealings with members, employers and others directly involved in the scheme		
	Contributions Receivable		
26,987	From employers	1	29,247
<u>9,881</u>	From members		<u>10,199</u>
36,868			39,446
<u>6,229</u>	Transfers in	17	<u>4,465</u>
<u>43,097</u>			<u>43,911</u>
	Benefits payable		
(18,753)	Pensions		(20,184)
(3,267)	Lump sum retirement benefits		(7,098)
<u>(1,259)</u>	Lump sum death benefits		<u>(521)</u>
<u>(23,279)</u>		2	<u>(27,803)</u>
	Payments to and on account of leavers		
(248)	Refunds of contributions		(177)
<u>(1,737)</u>	Transfers out	17	<u>(2,700)</u>
<u>(1,985)</u>			<u>(2,877)</u>
<u>(720)</u>	Administrative and other expenses borne by the scheme	4	<u>(721)</u>
17,113	Net additions/(withdrawals) from dealings with members		12,510
	Returns on investments		
19,150	Investment income	15	21,529
45,076	Change in market value of investments (realised and unrealised)		(55,438)
(381)	Taxation (irrecoverable withholding tax)		(314)
<u>(1,872)</u>	Investment Management Expenses	4	<u>(2,005)</u>
61,973	Net returns/(loss) on investments		<u>(36,228)</u>
79,086	Net increase/(decrease) in fund during the year		(23,718)
746,339	Opening net assets of the scheme		825,425
<u>825,425</u>	Closing net assets of the scheme		<u>801,707</u>

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT AS AT 31 MARCH 2008

As at 31/03/07 £000	Notes	As at 31/03/08 £000
	5	
	Investment assets	
416,679	Equities	393,086
155,837	Unitised insurance policies	153,352
96,707	Unit Trusts – (property)	89,336
138,865	Unit Trusts – (other)	143,916
8,615	Cash deposits	16,125
1,564	Other investment balances	1,871
818,267		797,686
	Current assets	
931	Sundry debtors	926
6,805	Deposits with Highland Council Loans Fund	3,685
7,736		4,611
	Less Current liabilities	
(578)	Sundry creditors	(590)
7,158	Net current assets	4,021
825,425	Net assets	801,707

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

Statement of Recommended Practice (SORP)

The Pension Fund Accounts have been prepared in accordance with the provisions of Chapter 2 "Recommended Accounting Practice" of the Pension 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 £1.104m to meet the strain on the Fund caused by early retirement are included under Contributions Receivable.

2. Contributions Receivable and Benefits Payable

2006/2007			2007/2008	
Contributions Receivable £000	Benefits Payable £000		Contributions Receivable £000	Benefits Payable £000
25,384	17,899	Highland Council	26,916	21,730
9,367	4,531	Scheduled Bodies	9,994	5,042
2,117	849	Admitted Bodies	2,536	1,031
36,868	23,279	Total	39,446	27,803

3. Number of Contributors and Pensioners

Contributors	2006/07			2007/08		
	Pensioners	Deferred Pensioners		Contributors	Pensioners	Deferred Pensioners
9,265	4,100	4,429	Highland Council	9,029	4,307	4,992
2,730	1,042	1,114	Scheduled Bodies	2,695	1,090	1,249
436	150	274	Admitted Bodies	486	158	298
12,431	5,292	5,817	Total	12,210	5,555	6,539

PENSION FUND ACCOUNTS

4. Administration Costs

2006/2007 £000		2007/2008 £000
	Investment Management Services	
(2)	Actuarial Fees	9
11	Performance Measurement	4
99	Custodial Fees & Performance Measurement	113
1,715	Manager Fees	1,843
0	Investment Advisory Fees	28
49	General Fees	8
1,872		2,005
	Internal Administration	
709	Highland Council Recharge	719
11	Other Administration	2
720		721
2,592	Total	2,726

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

During 2007/08 Performance Measurement was taken over by the Fund Custodian and included in custodial fees.

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 07 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Market Value at 31 March 08 £000
Equities	416,679	114,004	(95,332)	(42,265)	393,086
Unitised insurance policies	155,837	15,986	(13,296)	(5,175)	153,352
Unit Trusts (property)	96,707	3,586	(611)	(10,346)	89,336
Unit Trusts (other)	138,865	17,117	(17,450)	5,384	143,916
Cash deposits	8,615			7,510	16,125
Other investment balances	1,564			307	1,871
Total	818,267	150,693	(126,689)	(44,585)	797,686

Net Purchases

24,004

PENSION FUND ACCOUNTS

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 2008 the Fund's return on investments was -4.1%, which under performed its customised benchmark by 1%. The principal factors which influenced this under-performance were weak returns from North American and Japanese Equities and Corporate Bonds.

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 16 November 2007.

PENSION FUND ACCOUNTS

8. Tax Status of the Scheme

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

9. Funds under Management

2006/07		Manager Analysis	2007/08	
Market Value £000	% of Total Fund		Market Value £000	% of Total Fund
225,144	27.5%	Alliance Bernstein – Global Equity	208,175	26.1%
247,675	30.3%	Baillie Gifford – Global Equity	248,146	31.1%
91,453	11.2%	Fidelity – Bond Fund (see below analysis)	95,579	12.0%
155,839	19.0%	Legal and General – Managed Fund	153,354	19.2%
98,156	12.0%	Schroders – Property Fund	92,432	11.6%
818,267	100.0%	Combined Fund	797,686	100.0%

2006/07		Portfolio Distribution – UK/Overseas)	2007/08	
UK £000	Overseas £000		UK £000	Overseas £000
204,111	212,569	Equities	188,982	204,104
155,837	-	Unitised Insurance Policies	153,352	-
89,978	6,726	Unit Trusts (Property)	77,022	12,314
123,886	14,981	Unit Trusts (Other)	104,064	39,852
8,615	-	Cash Deposits	11,321	4,804
1,564	-	Other Investment balances	1,871	-
583,991	234,276	Total	536,612	261,074

2006/07		Portfolio Distribution – (Quoted/Unquoted)	2007/08	
Quoted £000	Unquoted £000		Quoted £000	Unquoted £000
416,680	-	Equities	393,086	-
155,837	-	Unitised Insurance Policies	153,352	-
96,704	-	Unit Trusts (Property)	89,336	-
138,867	-	Unit Trusts (Other)	143,916	-
-	8,615	Cash Deposits	-	16,125
1,564	-	Other Investment balances	1,871	-
809,652	8,615	Total	781,561	16,125

PENSION FUND ACCOUNTS

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

2006/07		Fidelity Investments	2007/08	
UK £000	Overseas £000		UK £000	Overseas £000
13,716	-	Fixed Interest (Public Sector)	14,750	-
64,335	-	Fixed Interest (Other)	42,074	24,866
13,697	-	Index Linked Securities	14,893	-
91,748	-	Total	71,717	24,866

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 under Current Documents 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 under Current Documents 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 2008, no stock was released to a third party under a securities lending agreement.

PENSION FUND ACCOUNTS

13. Scheduled and Admitted Bodies as at 31 March 2008

Administering Authority

Highland Council (also Scheduled Body)

Scheduled Bodies

Comhairle Nan Eilean Siar	Lews Castle College
Highland and Western Isles Valuation Joint Board	Northern Joint Police Board
Highland & Islands Fire Board	The Highland Council
Highlands of Scotland Tourist Board	The North Highland College
HITRANS	Western Isles Tourist Board
Inverness College	Scottish Police Service Authority

Admitted Bodies

Bord Na Gaidhlig	Highland Opportunity Ltd
Caledonia Community Leisure Ltd	Highlands and Islands Structural Funds Partnership
Careers Scotland	Inverness Harbour Trust
Cromarty Firth Port Authority	Mitie PFI Ltd
Eden Court Theatre	Morrison FM
Hebridean Housing Partnership	Richard Irvin & Sons
HIE Innse Gall	Stoneyhill Waste Management Ltd
HIE Inverness & East Highland	Stornoway Port Authority
HIE Lochaber	Torvean Golf Club
HIE Moray	University of the Highlands and Islands
HIE Skye & Wester Ross	Vacman Limited
Highland Blindcraft	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.

2006/07		2007/08
£000		£000
7,617	Opening Value	8,258
907	Contributions Invested	1,139
605	Interest, Bonuses & Transfers	509
(871)	Sales of Investments	(1,167)
<u>8,258</u>	Closing Value	<u>8,739</u>

PENSION FUND ACCOUNTS

15. Income Analysis

Combined Funds 31 March 2007 £000		Combined Funds 31 March 2008 £000
11,707	Dividends from equities	13,596
6,873	Income from pooled investments	7,222
336	Interest on cash deposits	503
234	Other investments	208
<u>19,150</u>		<u>21,529</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 most recent estimated claim, gross of fees, is £1.7m.

17. Transfer Values

During 2007/08 there were no significant bulk or individual transfers in or out of the Fund.

COMMON GOOD FUNDS

FOREWORD

Highland Council administers the Common Good Funds of the former Burgh Councils of Inverness, Nairn and Ross & Cromarty. The funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter funds can be used for a purpose which is in the interests of the community for which the Common Good Fund was established.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

2006/07 £000		2007/08 £000
2,119	Income	2,304
(1,700)	Expenditure	(1,545)
419	Surplus	759

BALANCE SHEET AS AT 31 MARCH 2008

2006/07 £000		2007/08 £000
	Fixed Assets	
35,791	Heritable property	35,791
4,484	Investments	5,085
40,275		40,876
	Current Assets	
1,609	Loans Fund deposit	2,382
4	Sundry debtors	65
1,613		2,447
	Current Liabilities	
(22)	Sundry creditors	(97)
1,591	Net current assets	2,350
41,866	Net assets	43,226
	Financed by:	
32,149	Revaluation Reserve	32,149
2,380	Capital Funds	2,981
7,337	Revenue Funds	8,096
41,866	Total Net Worth	43,226

COMMON GOOD FUNDS

NOTES TO THE COMMON GOOD ACCOUNTS

1. Fixed Asset Valuations

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

2. Investments

At 31 March 2008, the balances held, valuation of fixed assets and cost and value of investments for each Common Good Fund were as follows:

Fund Balance £000	31 March 2007			31 March 2008				
	Fixed Assets £000	Investments Cost £000		Investments Value £000	Fund Balance £000	Fixed Assets £000	Investments Cost £000	Investments Value £000
7,891	19,818	4,478	6,657	Inverness	9,076	19,818	5,079	6,668
443	15,306	6	6	Nairn	412	15,306	6	6
815	359	-	-	Tain	981	359	-	-
203	55	-	-	Dornoch	226	55	-	-
153	128	-	-	Dingwall	158	128	-	-
123	-	-	-	Fortrose	137	-	-	-
34	49	-	-	Cromarty	36	49	-	-
55	76	-	-	Invergordon	54	76	-	-
9,717	35,791	4,484	6,663	Total	11,080	35,791	5,085	6,674

3. Inverness Common Good - Investments

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

31 March 2007			31 March 2008	
Units Held	Units Held		Cost £000	Value £000
434	448	United Kingdom Fixed Interest	434	459
107	116	United Kingdom Index Linked	107	130
2,243	3,577	United Kingdom Equities	2,733	3,409
345	550	North America Equities	330	523
248	443	Continental Europe Equities	322	545
130	176	Japan Equities	130	138
121	326	Far East Equities	113	320
124	248	Emerging Markets Equities	124	384
155	175	United Kingdom Alternative	214	222
88	105	Continental Europe Alternative	135	98
20	20	Other International Equities	20	23
463	463	United Kingdom Cash	417	417
4,478	6,647	Total	5,079	6,668

COMMON GOOD FUNDS

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:

2006		2007
£263,437	Net assets as at 31 March	£305,522
£43,672	Profit before tax – year ended 31 March	£50,604
£39,167	Profit after tax – year ended 31 March	£42,085

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

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2008**

2006/07				2007/08		
Charitable Trust Funds £000	Educational Trust Funds £000	Other Funds £000		Charitable Trust Funds £000	Educational Trust Funds £000	Other Funds £000
11	151	164	Income	12	187	209
(2)	(68)	(105)	Expenditure	(2)	(109)	(111)
9	83	59	Surplus for the year	10	78	98

BALANCE SHEET AS AT 31 MARCH 2008

31 March 2007				31 March 2008		
Charitable Trust Funds £000	Educational Trust Funds £000	Other Funds £000		Charitable Trust Funds £000	Educational Trust Funds £000	Other Funds £000
23	172	1,076	Assets	23	172	1,182
			Investments at cost			
156	2,081	923	Current assets	166	2,165	971
-	-	27	Loans Fund deposit	-	-	82
156	2,081	950	Sundry debtors	166	2,165	1,053
			Less current liabilities			
-	-	-	Sundry creditors	-	(6)	-
156	2,081	950	Net current assets	166	2,159	1,053
179	2,253	2,026	Net assets	189	2,331	2,235
			Financed by:			
89	1,822	652	Capital Funds	89	1,822	759
90	431	1,374	Revenue Funds	100	509	1,476
179	2,253	2,026	Total Funds	189	2,331	2,235

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

1. Charitable Trusts

The Council administers eighty registered Scottish Charities which are for the benefit of various specific causes. At 31 March 2008 the balances and investments held are as follows:

31 March 2007				31 March 2008	
Fund Balance	Investments at cost	Scottish Charity No	Charity	Fund Balance	Investments at cost
£	£			£	£
-	-	1768	Beatrice Oilfield Trust - Nairn	-	-
-	-	3192	John Rutherford Trust for Poor of Kildonan	-	-
-	-	4447	John Robert Campbell Bequest for the Poor of Parish of Lairg	-	-
563	500	4881	Miss E Kemp bequest for Poor of Rosemarkie	583	500
819	155	5071	Grantown War Memorial Fund	857	155
9,148	-	7158	West Coast of Ross-Shire (Mainland) Distress Fund	8,970	-
127	101	8916	John Martin Trust to give Christmas dinner to the poor of Invergordon	134	101
76	-	8950	McCulloch Bequest for the Poor of Durness	76	-
735	-	9516	John Couper Bequest for Poor of Helmsdale	738	-
577	-	10505	Miss Margaret A Ross Charity Fund	579	-
726	39	10813	Coull Mortification	726	39
-	-	11444	James Asher's Charitable Trust	-	-
-	-	12300	William Murray Morgan Caithness Village Amenities Fund	-	-
4,063	944	12410	Donald Cameron of Erracht Bequest for Poor of Kilmallie	4,268	944
2,268	-	12475	John Rose Troup Charitable Trust	2,321	-
600	-	12682	Grigor Bequest for Confirmed Invalids	620	-
2,169	717	13277	Duncan Cameron Trust for Poor of Abernethy	2,267	717
2,807	-	16232	Grigor Bequest for Poor of Parish of Cawdor	2,877	-
115	-	16326	Miss Margaret A MacLeod Bequest	121	-
-	-	16486	Hugh Wilson Trust	-	-
16,047	-	17126	Highland Heart Fund	16,850	-
-	-	18287	Miss Magdalene Duff Fraser Mortification	-	-
-	-	18296	Jonathan Anderson Mortification for Poor	-	-
657	589	18297	Frederick Klein Mortification	686	589
-	-	18298	Robert Fraser Mortification	-	-
-	-	18299	Thomas Fraser Mortification	-	-
-	-	18300	Evan Baillie Mortification	-	-
-	-	18301	John Burnett Mortification	-	-
-	-	18302	Mrs Isabella Gollan Mortification	-	-

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

31 March 2007				31 March 2008	
Fund Balance	Investments at cost	Scottish Charity No	Charity	Fund Balance	Investments at cost
£	£			£	£
-	-	18303	Mrs Martha Gibson Mortification	-	-
-	-	18305	Robert Smith Mortification	-	-
551	505	18306	Mrs Jane Masson Bequest	570	505
-	-	18307	Dr John Mackintosh Bequest	-	-
-	-	18308	William Macgregor Bequest	-	-
949	1,009	18309	F W Grant Bequest	909	1,009
-	-	18310	William Galloway Macdonald Bequest	-	-
-	-	18311	George Melvin Bequest	-	-
-	-	18312	Louis Ormond Fyvie Bequest	-	-
-	-	18313	George Wilson Barron Bequest	-	-
829	-	18723	William Davidson Bequest	871	-
2,669	1,493	18724	Miss Adeleine Florence Henderson Bequests	2,560	1,493
1,018	800	18725	William Murray Bequest for Poor of Wick	1,055	800
13,825	283	18726	William Murray Bequest for Wick Library	14,510	283
891	442	18727	Murray (Olig) Bequest	938	442
546	359	18728	Oswald (Dunnet) Bequest	566	359
2,134	1,050	18729	Davidson - Cumming Bequest	2,221	1,050
210	105	18730	Oswald (Bower) Mortification	219	105
8,635	2,834	18731	Alexander Wares Bequest for Poor	9,025	2,834
12,994	2,350	18732	George Swanson Trust	13,307	2,350
1,430	503	18733	James Cormack Bequest	1,493	503
756	-	18734	John Sutherland Poor Cooper's Fund	794	-
321	137	18735	John Jacobus Harper Trust	330	137
149	-	18736	Thomas L Rettie Bequest for Poor	156	-
66	-	18737	Jane Cormack Bequest	69	-
194	-	18738	John Sutherland (Fish Curer) Poor Fund	204	-
1,857	-	18739	Sir Josiah H Symon Poor Fund	1,950	-
-	-	18740	John Miller Bequest	-	-
708	300	18995	Miss L E M Rose Bequest	737	300
794	800	18997	Nairnshire Boot Fund	685	800
12,364	5,000	18999	Miss Emma M Fraser Bequest for the Poor of Nairn	12,688	5,000
2,371	-	19557	Knockie Trust Fund	2,489	-
214	95	19558	Duncan MacBean Bequest	223	95
611	90	19559	Kennedy Trust for Poor	639	90
337	300	19561	John Fraser Bequest	348	300
212	-	19562	Hugh Leslie Bequest	222	-
155	12	19563	George Murray Senior Coal Fund	163	12
442	-	19564	David Thomson Bequest for poor	464	-
442	-	19565	Alex Thomson Bequest for poor	464	-
271	-	19566	David Thomson Bequest for Ex-Seaforth Highlanders	284	-
122	46	19567	Ronald Ross Bequest	128	46
436	-	19568	D Duff Bequest	458	-
214	-	19569	George MacLeod Bequest	224	-
275	19	19570	Tain War Memorial Fund	289	19

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

31 March 2007				31 March 2008	
Fund Balance	Investments at cost	Scottish Charity No	Charity	Fund Balance	Investments at cost
1,512	500	19694	Dr Donald Grant Legacy	1,611	500
428	200	19695	George Harvey Trust	448	200
19,868	1,171	19696	Miss Margaret Charlotte Stuart Legacy	23,720	1,171
-	-	19697	Earl of Seafield Bequest for Poor in Inverallan and Advie Portions of Cromdale Parish	-	-
-	-	25079	Highland Council Charitable Trusts	-	-
36,295	-	28254	Gairloch High School Howard Doris Fund	38,166	-
9,601	-	28500	Highland Regional Children's Panel 20th Anniversary Trust Fund	10,080	-
179,193	23,448		Total Charitable Trusts	188,950	23,448

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 2007				As at 31 March 2008		
Fund balance	Investments Cost	Value	Trust Fund	Fund balance	Investments Cost	Value
£000	£000	£000		£000	£000	£000
126	29	29	Caithness Educational Trust	120	29	26
831	-	-	Duncraig Endowment	862	-	-
20	-	-	George Kerr Bequest	20	-	-
30	-	-	Howard Doris fund – Plockton High School	30	-	-
226	45	326	Inverness Royal Academy Educational Trust	232	45	305
188	52	755	Inverness-shire Educational Trust	188	52	590
119	-	-	Manson Bequest – Keiss	126	-	-
116	-	-	Manson Bequest – Nairn and Ardclach	121	-	-
14	-	-	Miss B G Angus Executory	15	-	-
420	38	589	Ross & Cromarty Educational Trust	454	38	982
103	-	-	Sutherland Educational Trust	101	-	-
60	8	22	Other Educational Trusts	62	8	21
2,253	172	1,721	Total Educational Trusts	2,331	172	1,924

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

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 2007				As at 31 March 2008		
Fund balance	Investments			Fund balance	Investments	
£000	Cost	Value		£000	Cost	Value
£000	£000	£000		£000	£000	£000
801	724	1,114	Inverness Burial Grounds Fund	923	812	1,069
312	283	451	Inverness Benevolent Fund	351	301	440
27	32	55	Inverness 2 nd Benevolent Fund	24	31	54
214	-	-	Social Work Amenity Funds	226	-	-
142	-	-	Inverness – Other Trust Funds	148	-	-
6	2	4	Badenoch and Strathspey Trust Funds	6	2	4
219	20	16	Caithness Trust Funds	232	20	16
76	2	2	Lochaber Trust Funds	87	2	2
57	3	2	Nairn Trust Funds	63	3	2
144	9	7	Ross & Cromarty Trust Funds	145	11	9
4	1	1	Skye & Lochalsh Trust Funds	4	1	-
24	-	-	Sutherland Trust Funds	26	-	-
2,026	1,076	1,652	Total other trust funds	2,235	1,183	1,596

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 Depute Chief Executive and 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 and Depute Chief Executive 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 Depute Chief Executive and 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 Depute Chief Executive and 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 Depute Chief Executive and Director of Finance of Highland Council, as Chief Financial Officer state that the Accounts for the year ended 31 March 2008 present fairly the financial position of the authority at that date and its income and expenditure for the year then ended.

Alan Geddes
Depute Chief Executive and Director of Finance
30 September 2008

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 Depute Chief Executive and 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 13 to 19 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

2006/07 Net £000		Gross £000	2007/08 Income £000	Net £000
	Council Housing			
(9,800)	(Housing Revenue Account)	37,224	(42,257)	(5,033)
23,714	Cultural & Related Services	36,534	(9,220)	27,314
182,544	Education Services	243,630	(34,504)	209,126
29,291	Environmental Services	34,653	(5,341)	29,312
2,233	Other Housing – Housing Services	54,773	(45,567)	9,206
4,260	Planning & Development Services	16,850	(10,030)	6,820
30,345	Roads & Transport Services	74,942	(42,676)	32,266
87,909	Social Work Services	131,490	(35,716)	95,774
12,663	Central Services to the Public	63,143	(54,430)	8,713
10,936	Corporate and Democratic Core	13,315	(313)	13,002
(3,614)	Non Distributed Costs	6,840	-	6,840
	NET COST OF GENERAL FUND	713,394	(280,054)	433,340
370,481	SERVICES			
(63)	Share of Operating Result Subsidiary	1,404	(1,720)	(316)
25,718	Share of Operating Result of Associates	129,414	(104,349)	25,065
396,136	NET COST OF SERVICES	844,212	(386,123)	458,089
273	(Gain)/Loss on sale of Fixed Assets			(974)
(111)	(Surplus)/Deficit on Trading Undertakings			(109)
31,996	Interest payable and similar charges			29,386
1,369	Share of interest payable and similar			
(2,925)	charges of associates			1,298
	Interest and Investment Income			(5,142)
(286)	Share of Interest & Investment Income of			
	Associates			(562)
(3,669)	Pension interest cost and expected return on			
	pension assets			(5,635)
13,099	Share of Pension interest cost and expected			14,602
	return in pension costs of Associates			
435,882	NET EXPENDITURE BEFORE RESERVES			490,953
	MOVEMENTS			
(100,804)	Council Tax			(104,920)
(279,695)	Revenue Support Grant			(299,042)
(77,938)	Non-Domestic Rates			(77,518)
(22,555)	(SURPLUS)/DEFICIT FOR THE YEAR			9,473

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

2006/07 Net		2007/08 Net
(22,622)	NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT	11,088
-	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:	
(301)	Subsidiaries	(553)
368	Associates	(1,062)
<hr/>		<hr/>
(22,555)	Group Account (Surplus)/Deficit for the Year	9,473
	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	
3,368	Highland and Islands Fire Board	3,740
13,428	Northern Joint Police Board	14,050
(102)	Highlands and Western Isles Valuation Joint Board	(31)
-	Highlands & Islands Transport Partnership	1
<hr/>		<hr/>
16,694		
<hr/>		<hr/>
(5,861)	Net Income and Expenditure Account (Surplus)/Deficit	27,233

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2006/07 Net		2007/08 Net £000
(5,861)	NET INCOME AND EXPENDITURE ACCOUNT (SURPLUS)/DEFICIT	27,233
(22,208)	Surplus arising on the revaluation of fixed assets	(4,881)
(56,104)	Actuarial (gains)/losses on pension fund assets and liabilities	(24,046)
(493)	Any other gains or losses recognised in the STRGL	-
165	Net movements not attributable to the General Fund	(64)
<hr/>		<hr/>
(84,501)	Total recognised gains for the year	1,758

GROUP BALANCE SHEET AS AT 31 MARCH 2008

31 March 2007		31 March 2008	
£000		£000	£000
	<u>FIXED ASSETS</u>		
	Operational Assets		
510,074	Council Dwellings	501,221	
651,907	Other Land and Buildings	648,066	
9,568	Vehicles, Plant, Furniture and Equipment	12,731	
222,374	Infrastructure Assets	235,733	
919	Community Assets	955	
<hr/> 1,394,842	Total Operational Assets	<hr/>	1,398,706
	Non Operational Assets		
27,122	Investments	27,376	
4,012	Surplus Assets Awaiting Disposal	7,856	
5,108	Assets Under Construction	3,877	
<hr/> 36,242	Total Non Operational Assets	<hr/>	39,109
<hr/> 1,431,084	Total Fixed Assets		1,437,815
(250,547)	Investments in Associates and Joint Ventures	(236,101)	
2,395	Long term Investments	1,850	
42,069	Long term Debtors (net of Provisions)	41,422	
<hr/> (206,083)	Total Long term Assets	<hr/>	(192,829)
	<u>Current Assets</u>		
3,903	Stock and Work in Progress	3,387	
91,214	Sundry Debtors	84,378	
(40,864)	<u>Less</u> Provisions	(38,254)	
59,401	Investments (for less than 1 year)	47,688	
123	Cash	121	
<hr/> 113,777		<hr/>	97,320
	<u>Less: Current Liabilities</u>		
23,898	Borrowing repayable in less than one year	22,335	
80,539	Sundry Creditors	61,423	
5,740	Provisions	11,940	
3,889	Bank Overdraft	4,659	
<hr/> 114,066		<hr/>	100,357
(289)	Total Assets less Current Liabilities		(3,037)

GROUP BALANCE SHEET AS AT 31 MARCH 2008

31 March 2007		31 March 2008	
£000		£000	£000
(289)	Total Assets less Current Liabilities		(3,037)
	Less:		
579,529	Borrowing repayable in more than one year	574,345	
34,519	Government Grants Deferred	46,462	
39,682	Capital Contributions Deferred	43,062	
80,331	Defined Benefit Pension Scheme Liability	85,669	749,538
<u>490,651</u>	TOTAL ASSETS LESS LIABILITIES		<u>492,411</u>
	FINANCED BY:		
815,116	Capital Adjustment Account		765,507
(45,162)	Financial Instrument Adjustment Account		(42,833)
-	Revaluation Reserve		36,197
8,092	Capital Receipts Reserve		5,769
(359,495)	Pension Reserve		(351,930)
	Other Reserves		
1,285	Renewal And Repair Fund		1,375
22,446	Capital Fund		28,763
540	Insurance Fund		732
	Revenue Account Balances		
38,936	General Fund		40,027
8,893	Housing Revenue Account		8,804
<u>490,651</u>	TOTAL NET WORTH		<u>492,411</u>

Alan Geddes
Depute Chief Executive and Director of Finance
30 September 2008

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

2006/2007 £000		2007/2008 £000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
327,330	Cash Paid to and on behalf of employees	328,622	
263,601	Other operating cash payments	320,737	
86,019	National non-domestic rates payments to national pool	99,342	
23,592	Housing Benefit paid out	23,632	
<u>700,542</u>	Total Outflows	<u>772,333</u>	
	Cash Inflows		
(25,015)	Rents (after rebates)	(69,206)	
(114,250)	Council tax receipts	(120,269)	
(84,462)	Non-domestic rates receipts	(78,540)	
(78,394)	National non-domestic rates receipts from the national pool	(77,506)	
(279,695)	Revenue support grant	(299,042)	
(23,283)	DWP grants for benefits	(23,168)	
(23,683)	Other government grants	(27,526)	
(77,100)	Cash received for good and services	(73,325)	
(77,196)	Other operating cash receipts	(50,373)	
<u>(783,078)</u>	Total Inflows	<u>(818,955)</u>	
(82,536)	Net Cash Outflow / (Inflow) from Revenue Activities		(46,622)
	Cash Outflows		
21,150	Interest Paid	26,805	
<u>21,150</u>	Total Outflows	<u>26,805</u>	
	Cash Inflows		
(3,080)	Investment Income and Interest Received	(2,656)	
<u>(3,080)</u>	Total Inflows	<u>(2,656)</u>	
18,070	Net Cash Outflow / (Inflow) from Return on Investments and Servicing of Finance		24,149
	CAPITAL ACTIVITIES		
	Cash Outflows		
62,418	Purchase of Fixed Assets	63,540	
<u>62,418</u>	Total Outflows	<u>63,540</u>	
	Cash Inflows		
(14,151)	Sale of Fixed Assets	(14,498)	
(4,836)	Capital Grants Received	(13,522)	
(10,804)	Other Capital Cash Receipts	(6,760)	
<u>(29,791)</u>	Total Inflows	<u>(34,780)</u>	
32,627	Net Cash Outflow / (Inflow) on Capital Activities		28,760

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

2006/2007 £000		2007/2008 £000	2007/2008 £000
(31,839)	Net Cash Outflow / (Inflow) before Financing		6,287
	MANAGEMENT OF LIQUID RESOURCES		
49,451	Net Increase / (decrease) in short term deposits	(11,713)	
<u>(2,960)</u>	Net Increase / (decrease) in other liquid resources	<u>(2,277)</u>	
46,491			(13,990)
	FINANCING		
	Cash Outflows		
353,939	Repayments of amounts borrowed	364,512	
<u>(2,005)</u>	Repayments of Premiums and Discounts	<u>-</u>	
351,934	Total Outflows	364,512	
	Cash Inflows		
(213,249)	New loans raised	(87,400)	
<u>(163,771)</u>	New short term loans raised	<u>(270,181)</u>	
(377,020)	Total Inflows	(357,581)	
<u>(25,086)</u>	Net Cash Outflow / (Inflow) from Financing		6,931
<u>(10,434)</u>	Net (Increase)/ Decrease in cash		<u>772</u>

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 2008 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:

2006/07		2007/08
£000		£000
	Borrowing from Highland Council	
	<u>Repayable in more than 12 months</u>	
20,371	Northern Joint Police Board	19,413
14,518	Highlands and Islands Fire Board	13,348
34,889		32,761
	<u>Repayable in less than 12 months</u>	
909	Northern Joint Police Board	929
1,503	Highland and Islands Fire Board	1,162
255	Highlands and Islands Transport Partnership	715
2,667		2,806
37,556	Total Borrowing from Highland Council by Associates	35,567
	Borrowing from Associates	
	<u>Repayable in less than 12 months</u>	
9,342	Highland Council	13,623

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

2006/2007		2007/2008
£000		£000
(22,922)	Income and Expenditure Account (Surplus) / Deficit	10,534
	Non Cash Items	
5,541	FRS 17 transactions	1,477
(18,070)	Interest Paid/ Received	(24,149)
(25,763)	Depreciation	(51,272)
6,535	Amortised Govt Grants and Capital Contributions	4,356
-	Premiums and discounts written off	(1,598)
-	Amounts written off long term investments	(545)
1,036	Capital Funded from Current Revenue	1,271
321	FRS 5 – PPP adjustments	907
(273)	Gain/Loss on Sale of Assets	1,007
(30,673)		(68,546)
	Items on Accruals Basis	
742	(Increase) / Decrease in Stocks	(516)
3,954	(Increase) / Decrease in Debtors	2,772
(35,040)	Increase / (Decrease) in Creditors	12,724
1,403	Increase / (Decrease) in Creditors	(3,590)
(28,941)		11,390
(82,536)	NET CASH FLOW FROM REVENUE ACTIVITIES	(46,622)

GROUP 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 Depute Chief Executive and Director of Finance being Treasurer to the Joint 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.

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

GROUP STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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.

- A mechanism for the review of the Board's Code of Corporate Governance is required.
- A formal risk management strategy and risk register should be introduced.

Highland and Islands Fire Board

- Controls relating to the administration of the fire fighters' pension scheme had been identified. Appropriate arrangements will be put in place to rectify the concerns by 30 June 2008.

Northern Joint Police Board

- Additional processes are required to ensure that all items recorded in the Found Property Register held at Police Headquarters have been sent to the Found Property Store at Inverness Area Command. The target date for this action was 28.02.2008.
- Develop objectives and direction in the operation and management of radio sites. The target date for this was 31.01.2008.
- Review and update document retention guidance and ensure that the updated guidance is available on the Force intranet. The target date for this is 31.03.2009

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
Depute Chief Executive and Director of Finance
30 September 2008

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 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, statement of movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with 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 Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

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

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

I review whether the Council's Corporate Governance Statement and the group's Statement on the System of Internal Financial Control reflect compliance with the SORP, and I report if, in my opinion, they do not. I am not required to consider whether these statements covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are most 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 relevant legal and regulatory requirements and the 2007 SORP, the financial position of Highland Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Fiona Mitchell-Knight, Assistant Director
Audit Scotland – Audit Services
7th Floor, Plaza Tower
East Kilbride, G74 1LW

30 September 2008