



The Highland Council
Statement of Accounts
Aithris Chunntasan
2013-14

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EXPLANATORY FOREWORD BY DIRECTOR OF FINANCE

1. Statement of Accounts (the Accounts)

The Statement of Accounts presents the financial position and performance of The Highland Council and its group for the year ended 31 March 2014 which have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code) and the Service Reporting Code of Practice (SerCOP).

The financial results of the Council's subsidiaries, associates and joint ventures are consolidated into group accounts. The group comprises The Highland Council, its subsidiaries (Inverness Common Good Fund, Nairn Common Good Fund and High Life Highland) and its associates. The associates are the Council's share of the Highland and Western Isles Joint Valuation Board and the Highland and Islands Transport Partnership. The Council's share of each is based on the proportion of voting rights of Highland Council Members.

The Accounts comprise the following financial statements:

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase/Decrease before Transfer to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movements in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is unusable reserves i.e. those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services when the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year. This statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the council.

Accounting Policies and Notes to the Accounts

Explanations are provided for the basis of the figures included within the Accounts and the policies adopted particularly where there is more than one acceptable basis. Notes are included to provide details of certain aspects contained within the financial statements.

Housing Revenue Account (HRA)

The major elements of expenditure on the Council housing stock and how that expenditure has been financed are included in the HRA. The totals on the HRA are included in the Comprehensive Income and Expenditure Statement.

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

Non-Domestic Rate Account

The Non-Domestic Rate Account reflects the statutory obligation of the Council as a billing authority to maintain a separate Non-Domestic Rate Account. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rates Pool.

3. Financial performance

3.1 Balances

The movements and balances on the Council's revenue reserves for 2013/14 are summarised below:

	Balance at 31/03/13 £m	Use of earmarked balances £m	Increase in earmarking £m	Interest on balances £m	Balance at 31/03/14 £m
Non-earmarked balances	18.167	8.670	(12.106)	(0.047)	14.684
Surplus for the year					<u>2.450</u>
					17.134
Earmarked balances					
Strategic Change and Development Fund	5.000	(1.471)	1.078	0.021	4.628
NHS Adult Care	-	-	3.500	-	3.500
IT Investment Funds	1.491	(0.315)	1.614	0.007	2.797
Devolved School Management	2.265	(0.436)	-	-	1.829
Grants and Match Funding	0.465	(0.372)	1.675	-	1.768
Business Rates Incentivisation Scheme	1.300	-	-	0.006	1.306
Road Maintenance	2.000	(2.000)	1.250	-	1.250
Welfare Issues	-	-	1.166	-	1.166
Community Challenge Fund	1.000	-	-	0.005	1.005
Additional Support Needs	-	-	1.000	-	1.000
Pathfinder	-	-	0.823	-	0.823
Central Energy Efficiency Fund	0.752	(0.026)	-	0.004	0.730
Police funding	3.913	(3.191)	-	-	0.722
Spend to Save Fund	0.696	(0.169)	-	0.003	0.530
Inverness Royal Academy Extension	0.151	-	-	0.001	0.152
Future Change Implementation	0.285	(0.285)	-	-	-
Caithness Heat and Power Ltd	0.405	(0.405)	-	-	-
Total Earmarked Balances	<u>19.723</u>	<u>(8.670)</u>	<u>12.106</u>	<u>0.047</u>	<u>23.206</u>
Total General Fund	<u><u>37.890</u></u>				<u><u>40.340</u></u>
	Balance at 31/03/13 £m	Surplus for the year £m	Transfer from capital fund £m	Balance at 31/03/14 £m	
Housing Revenue Account	<u>6.804</u>	<u>0.364</u>	<u>0.160</u>	<u>7.328</u>	

In accordance with CIPFA guidance "Reserves and Balances in a Local Authority" the Council has determined that General Fund balances should be retained for contingencies and for specific initiatives. The Council keeps its level of balances under review and aims to keep a sum of up to 2.5% of the revenue budget, approximately £14.4m, to be held as a contingency in non-earmarked balances. Any balance in excess of this provides additional flexibility until utilised or otherwise earmarked by the Council.

3.2 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 Comprehensive Income and Expenditure Statement which is in accordance with the standard classification of services set out in the Service Reporting Code of Practice (SerCOP) and allows comparison to be made with other Scottish Local Authorities. The following presentation allows comparison of the 2013/14 results against budget, on the basis of the internal service analysis of the Council.

	Notes	Budget £m	Actual £m	Over/ (Under) £m
Education, Culture and Sport		238.205	238.127	(0.078)
Housing (non HRA), Property and Architectural Services		9.642	9.993	0.351
Building Maintenance		-	(0.066)	(0.066)
Planning and Development	1	6.503	6.130	(0.373)
Health and Social Care		137.133	137.182	0.049
Transport, Environment and Community	2	61.320	60.126	(1.194)
Chief Executive's Office		22.185	22.056	(0.129)
Finance Services	3	11.887	12.204	0.317
Social Welfare Fund		0.651	0.651	-
Housing Benefits		1.017	0.850	(0.167)
Nairn Common Good Fund (Sandown)		0.390	0.390	-
		488.933	487.643	(1.290)
Joint Board Requisitions				
Northern Joint Police Board		2.100	2.100	-
Highland and Islands Fire Board		-	0.033	0.033
Highland and Western Isles Valuation Joint Board		2.380	2.345	(0.035)
Highland and Islands Transport Partnership		0.089	0.089	-
Non-Domestic Rate Relief		0.606	0.695	0.089
Loan Charges	4	55.510	53.072	(2.438)
Interest on Revenue Balances		(0.180)	(0.162)	0.018
Interest and Investment Income		-	(0.005)	(0.005)
Total General Fund Services		549.438	545.810	(3.628)
Appropriations to/(from) Reserves				
Repairs and Renewals Fund		(0.007)	(0.007)	-
Insurance Fund		0.004	0.004	-
Capital Fund		(0.463)	(0.463)	-
Affordable Housing		2.600	2.585	(0.015)
Caithness Heat and Power Ltd		0.405	-	(0.405)
Amount to be funded from Taxpayers/ General Fund Balance		551.977	547.929	(4.048)
Revenue Support Grant		(336.229)	(336.229)	-
Non-Domestic Rates		(114.154)	(114.154)	-
Council Tax		(98.060)	(99.951)	(1.891)
		3.534	(2.405)	(5.939)

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

	Notes	Budget £m	Actual £m	Over/ (Under) £m
Unallocated pressures/growth		1.609	-	(1.610)
NHS Budget Adult Care 2014/15		(3.500)	-	3.500
Road Maintenance		(1.250)	-	1.250
Additional Support Needs		(1.000)	-	1.000
Strategic Change and Development Fund		(0.750)	-	0.750
Carbon Clever Highlands		(0.160)	-	0.160
Commonwealth Games Legacy Fund		(0.150)	-	0.150
Supplementary Estimates		(1.770)	-	1.770
Surplus on unearmarked General Fund balance		(3.437)	(2.405)	1.032
Transfer from earmarked balance	5	(8.670)	-	8.670
Transfer to earmarked balances	6	12.106	(0.045)	(12.152)
		3.437	(0.045)	(3.482)
Total General Fund surplus		-	(2.450)	(2.450)

The General Fund outturn was a surplus of £2.450m for the year. After allowing for net transfers of £3.482m to earmarked balances, the non-earmarked balance has reduced by £1.033m.

Significant variations from budget during the year were as follows:

1. The Planning and Development Service is underspent by £0.373m due to increased Planning and Building Warrant Fee income and staff vacancy management.
2. The Transport, Environment and Community budget is underspent by £1.194m. The main factors contributing to this were underspends on road maintenance due to the mild winter and increased income in the Project Design unit generated from increased capital works. Pressures on waste management, transport and fuel budgets reduced the net underspend for the year.
3. Finance Services have a year end overspend of £0.317m which is mainly due to budgeted savings in Business Support not being met as a result of technical IT issues which caused delays in changing underlying processes.
4. The budget for Loan Charges has a year end underspend of £2.438m due to lower than expected borrowing, continued favourable short term interest rates and changes to the borrowing profile.
5. During the year £8.670m was added to service budgets from previously earmarked balances as detailed in paragraph 3.1 above.
6. During the year £12.106m was earmarked from service budgets to make funding available in future years as detailed in paragraph 3.1 above.

3.3 Housing Revenue Account (HRA)

The financial results for the Housing Revenue Account are shown below. This presentation differs from that shown in the Housing Revenue Account Income and Expenditure Statement which is set out in accordance with the SerCOP and allows comparison to be made with other Scottish Local Authorities. The following allows comparison of the 2013/14 results against budget.

	Note	Budget £m	Actual £m	Over/ (Under) £m
Staff costs	1	5.200	5.073	(0.127)
Other costs	2	25.287	26.101	0.814
Loan charges and interest	3	15.629	14.751	(0.878)
		46.116	45.925	(0.191)
Income	4	(46.116)	(46.449)	(0.333)
		-	(0.524)	(0.524)

1. Staff costs were under budget due to staff vacancies and reduced standby costs in the year.
2. Other costs were over budget due to increased repair costs and support charges.
3. Loan charges were under budget due to favourable interest rates throughout the year.
4. Income exceeded budget due to an increase in the level of ex-tenants arrears and other recharges.

3.4 Group Financial Results

The Council has interest in other organisations which have been incorporated into the group accounts. High Life Highland, a charitable company limited by guarantee is deemed to be a subsidiary company and is included in the group position along with Inverness and Nairn Common Good Funds administered by the Council. In addition, the Council has an interest in the Highland and Western Isles Valuation Joint Board and HITRANS which are deemed to be associates of The Highland Council and are included on this basis in the group accounts.

By including the share or group entities the effect on the group balance sheet is an increase in net assets and reserves of £34.039m.

The financial results for the Group are summarised below:

2012/13 £m		2013/14 £m
<u>32.299</u>	Total comprehensive Income and Expenditure	<u>56,033</u>
<u>91.541</u>	Balances – usable reserves	<u>91,946</u>
<u>584.583</u>	Balances – unusable reserves	<u>824,763</u>

3.5 Capital Programme

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

		Net expenditure		Over/ (under)
	Notes	Budget £m	Actual £m	£m
General Fund				
Education, Culture and Sport	1	31.775	27.112	(4.663)
Transport, Environmental and Community Services	2	25.239	22.804	(2.435)
Digital Broadband		10.925	10.925	-
Accommodation Rationalisation	3	5.946	4.734	(1.212)
Strategic Property Management	4	5.185	5.363	0.178
Housing (non HRA)		4.786	4.694	(0.092)
Chief Executive's office	5	4.709	1.246	(3.463)
Energy Management	6	4.046	4.510	0.464
Health and Social Care		3.709	3.626	(0.083)
Discretionary Fund	7	1.810	-	(1.810)
Planning and Development	8	0.619	0.318	(0.301)
Over-programming	9	(10.000)	-	10.000
Unallocated budget		0.064	-	(0.064)
		<u>88.813</u>	<u>85.332</u>	<u>(3.481)</u>
Housing Revenue Account	10	<u>41.000</u>	<u>42.192</u>	<u>1.192</u>

Significant variations from budget during the year were as follows:

1. Education, Culture and Sport have a year end underspend of £4.663m due to delays and changes to funding profiles in projects including Invergordon Leisure Centre, Thurso Swimming Pool, Central and Fort William Primary Schools, Inverness Royal Academy and Wick Joint Campus. The net underspend is partially mitigated by the acceleration of the Lochaber High School project and overspends on Roll Pressures and ICT Investment projects.
2. Transport, Environment and Community Services have an underspend of £2.435m for the year mainly due to slippage on several projects which was planned in order to compensate for a projected overspend on the River Ness Flood Prevention scheme which did not in fact occur.
3. Delays in the Wick and Fort William office projects offset to some extent by an overspend on a Starter Business Units project contributed to the £1.212m underspend in the Accommodation Rationalisation budget.
4. An increase in statutory property compliance work has led to an overspend of £0.178m in the Strategic Property Management budget.
5. The Chief Executive's budget is underspent by £3.463m due to slippage on the Kingussie Office Rationalisation and Cameron Square, Fort William regeneration projects. In addition work on the Modern Telephony Project has been halted and will be replaced with a new Unified Communications Project.
6. The Energy Management budget has an overspend of £0.464m due to work required to reduce the Carbon Footprint of the Council in line with its Carbon Management Plan.

7. No use was made of the Discretionary Fund in the year. Ten projects to the value of £0.971m have been committed against this budget for future years leaving an uncommitted balance of £0.839m.
8. The Planning and Development Service has an underspend of £0.301m due to longer than anticipated lead in times creating slippage on various projects.
9. The 2013/14 programme included over-programming of £10.000m to provide flexibility in managing the scheduling of projects to maximise expenditure in the year.
10. The Housing Revenue Account capital programme has an overspend of £1.192m due to the acceleration of the New Build programme to meet housing needs

3.6 Major Changes in Functions and Service Delivery

There have been two significant changes in functions and service delivery effective from 1 April 2013.

Statutory functions

From 1 April 2013 responsibility for Police and Fire Services which had been provided by Joint Boards partly funded by Highland Council passed to new single Police and Fire Services for Scotland. All financial records of the Joint Boards were closed off as at 31 March 2013 and during 2013/14 all balances have been disbursed to the new single services and constituent authorities in line with the Police and Fire Reform (Scotland) Act 2012 and the Transfer of Property, Rights, Liabilities and Obligations (PRiLO) project. The Council retains responsibility for servicing capital debt relating to the Joint Boards receiving biannual repayments from the new Police and Fire services. The total amount of outstanding debt was £24.290m as at 31 March 2014.

From 1 April 2013 UK Government welfare reform changes resulted in a significant change in the statutory responsibilities of the Council when the existing Council Tax benefits system was replaced by a new Scottish Council Tax Reduction Scheme with annual expenditure of approximately £12.9m to be administered by the Council. In addition, the Council has responsibility for administering the new Scottish Welfare Fund distributing Community Care and Crisis Grants on behalf of the Scottish Government with an annual budget of £0.8m.

Welfare Reform presents a significant challenge to the Highland Council, initially and directly impacting on Council and Social Sector tenants. However the scale of reform presents a wider and longer term challenge to health and wellbeing of the most vulnerable adults within the Highlands, as well as an impact on the local economy.

Changes in functions and service delivery

During the course of the 2013/14 financial year, and continuing into 2014/15, the Council is implementing a restructure of its Senior Management, Service and Committee Structure. In total the number of Services and Service Directors will reduce by 2 as a result, and lead to a revised structure as follows:

Service	Senior Management	Strategic Committee
Chief Executive's Service	Chief Executive	Resources
Care and Learning	Director	Education, Children and Adult Services
Development & Infrastructure	Director	Planning, Development & Infrastructure
Community Services	Director	Community Services
Corporate Development	Director	Resources
Finance	Director	Resources

No other major changes were implemented during the year

Financial Outlook

The Council is facing a significant financial challenge as a result of the impact of the wider economic climate, and a sustained real terms reduction in public expenditure. The Council is addressing this challenge by moving from a 3 year to a 5 year revenue budget, with a focus on transforming the way in which it provides services and an increased drive to deliver efficiencies. The Council aims to do more in evaluating its performance against other authorities, and is considering a range of options for how services are delivered.

The Council faces a significant funding gap, currently estimated at £63.700m over the four years 2015/16 to 2018/19. It also faces significant “demand led” pressures in areas such as Additional Support Needs for Children; Out of Authority Placements for children with special needs; Waste collection and disposal; Demographic changes; Education; and Roads. The scale of these challenges means that some reductions to existing services are inevitable if the funding gap is to be bridged.

The Council has no certainty over the level of future grant funding, with significant uncertainty over the potential for changes in Government strategy, and significant risks to income levels once the wider impact of welfare reforms come into effect. However the early work and longer term financial planning means that the Council is better placed to face these challenges. The Council has a good record of strong financial management and delivering balanced budgets.

Future Revenue and Capital Financial Plans

The revenue budget for 2014/15 was agreed by the Council on 19 December 2013. In total the budget was set including £9.975m to fund budget pressures and preventative spend, with savings of £12.648m agreed to balance the budget within available funding.

On 13 March 2014 the Council considered a report on financial planning covering financial years 2015/16 to 2018/19. That report set out an update on the financial outlook for that period, and the arrangements in place to take forward the financial planning process. The Council intends to undertake a public budget consultation exercise during 2014, and make decisions on its budget for the period in early 2015.

Key figures relating to those financial reports are summarised below.

	Agreed Budget 2014/15 £m
General Fund	<u>563.697</u>
Housing Revenue Account (HRA)	<u>48.928</u>

The Council’s current General Fund capital programme was agreed by the Council on 27 June 2013.

That capital programme represented a longer-term approach to capital planning, based on a 10 year capital programme overall, consisting of a 5 year ‘firm’ capital programme and a 5 year ‘indicative’ capital programme.

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The overall levels of capital programme agreed were as summarised below.

	5 year 'firm' capital programme				
	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Gross General Fund Capital Programme	96.598	96.178	117.456	78.088	82.018
Funding:					
Scottish Government					
General Capital Grant	24.029	31.132	28.704	22.014	22.014
Grant for Ness Flood Scheme	5.880	7.381	9.687	-	-
Other Project Income	5.090	3.855	8.628	4.694	1.144
Borrowing for capital	61.599	53.810	70.437	51.380	58.860
Total Funding	96.598	96.178	117.456	78.088	82.018

Some of the most significant capital schemes (by value) to be taken forward during that five year period include; Inverness Royal Academy, Wick Schools Project, Greater Fort William Primary Schools project, Inverness West Link Road, River Ness Flood Prevention Scheme, ICT capital investment.

The Housing Revenue Account (HRA) capital programme contains two main priority themes; (1) bringing the housing stock up to the Scottish Housing Quality Standard, and (2) investing in a programme of new build housing.

The current programme is as follows.

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Scottish Housing Quality Standard	17.558	36.354	-	-	-
Housing Capital Programme	-	-	21.000	15.000	15.000
Council House Building Programme	23.442	34.266	11.664	8.880	11.800
Total HRA Capital	41.000	70.620	32.664	23.880	26.800

Funding

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Capital Receipts	2.131	1.279	1.279	1.279	0.853
Capital from Current Revenue	4.325	4.325	4.000	3.000	2.000
Landbank Contribution	0.690	1.450	2.140	0.270	2.000
Grant Funding – SHQS	-	0.750	4.000	4.000	4.000
Grant Funding – New Build	5.947	9.903	3.860	2.610	5.800
Borrowing	27.907	52.913	17.385	12.721	12.147
Total HRA Funding	41.000	70.620	32.664	23.880	26.800

Source of funds for capital investment:

Finance will only be raised in accordance with the Local Government in Scotland Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
Public Works Loans Board	√	√
European Investment Bank	√	√
Market (long-term)	√	√
Market (temporary)	√	√
Market (LOBOs)	√	√
Stock issues	√	√
Local temporary	√	√
Local Bonds	√	x
Overdraft	√	√
Negotiable Bonds	√	√
Internal (capital receipts and revenue balances)	√	√
Commercial Paper	√	x
Medium Term Notes	√	x
Leasing (not operating leases)	√	√
Deferred Purchase	√	√

In relation to PFI schemes, the Council has two schools PFI schemes which have been fully operational for a number of years. Annual revenue obligations under the scheme are fully provided for within the Council's revenue budget and total £22.9m in 2013/14 (£22.6m in 2012/13).

Financial Ratios and Indicators

31/03/13		31/03/14
	Reserves	
3.13%	Uncommitted General Fund balance as a percentage of annual budgeted net expenditure	3.00%
£5.488m	Surplus transferred to General Fund Balance	£2.450m
	Council Tax	
95.59%	In year collection rate	95.49%
18.99%	Council tax income as a percentage of overall funding	18.16%
	Financial management	
100.16%	Actual outturn as a percentage of budget	99.33%
(£5.292m)	Decrease in uncommitted General Fund balance	(£0.985m)

4. Major Non-current Asset Acquisitions and Disposals

The General Fund and Housing Revenue Account capital programmes are geared towards improving and enhancing assets owned by the Council. During 2013/14 the major projects in the Education, Culture and Sport programme included the extension of Kingussie High School and investment in new schools. In the Transport, Environment and Community programme the major project was River Ness Flood Prevention measures.

Assets sold in 2013/14	General Fund £m	HRA £m	Total £m
Net Book Value of assets sold	1.766	2.025	3.791
Capital Receipts	(1.267)	(2.308)	(3.575)

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Net (Gain)/loss on disposal	0.499	(0.283)	0.216
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The main disposals in the General Fund were Council Offices at The Meadows in Dornoch and Raigbeg Primary School.

The Housing Revenue Account programme invested £42.1m in Council house stock during the year.

5. 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:

2012/13		2013/14		Total
Total		Landbanking	Developers	Capital
Capital		fund	Contributions	Fund
Fund		£m	£m	£m
£m				
30.238	Balance at 1 April 2013	28.734	2.437	31.171
0.733	Developers contributions received	0.066	0.146	0.212
2.686	Council Tax income (second homes)	2.585	-	2.585
-	Grant income	0.200	-	0.200
0.435	Land sales	-	-	-
0.192	Interest on balances	0.134	0.023	0.157
0.300	Other Income	0.005	-	0.005
0.155	Transfer (to)/from General Fund	(0.050)	-	(0.050)
(2.285)	Grants and contributions	(0.349)	(1.853)	(2.202)
(0.164)	Purchase of land	(1.539)	-	(1.539)
(0.019)	Loans written off	(0.034)	-	(0.034)
(1.350)	Contribution to HRA capital programme	(0.160)	-	(0.160)
2.543	Transfer from creditors at 1/04/13	-	2.293	2.293
(2.293)	Transfer to creditors at 31/03/14	-	(0.935)	(0.935)
31.171	Balance at 31 March 2014	29.592	2.111	31.703

During the year the Council made the following loans from the Landbanking Fund.

	Balance as	Advanced	Repaid in	Loans	Balance as
	at 1/04/13	in year	year	written	at 31/03/14
	£m	£m	£m	off in	£m
				year	
				£m	
Highland Housing Alliance	9.954	0.014	(1.243)	(0.034)	8.691
Highland Small Communities					
Housing Trust	0.046	0.909	(0.150)	-	0.805
Albyn Housing Society	0.665	-	(0.140)	-	0.525
Lochalsh and Skye Housing					
Association	0.345	-	(0.150)	-	0.195
National Housing Trust	-	0.189	-	-	0.189
Pentland Housing Association	0.065	-	-	-	0.065
	11.075	1.112	(1.683)	(0.034)	10.470

6. Retirement Benefits

The Highland Council participates in The Scottish Teachers' Superannuation Scheme which is a national scheme administered by the Scottish Government. 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.

Other Council employees may join the LGPS which locally is The Highland Council Pension Fund administered by Highland Council. Note 24 to the Core Statements details the income and expenditure charged based on estimates by the Fund's Actuary and on the same basis shows that the Council has a net pension liability at 31 March 2014 of £392.349m. The liability is accounted for within the Balance Sheet and through the Pension Reserve.

The pension liability represents the best estimate of the current value of the pension benefits that will have to be funded by Highland Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2014.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. In order to adjust the pension liability cash flows for the time value of money a discount factor based on corporate bond rates is used.

The 2012/13 position within the Comprehensive Income and Expenditure Statement has been restated following a change in accounting policy to reflect the adoption of amendments to accounting standard IAS 19 Employee Benefits within the 2013/14 code. The impact on the statement is an increase of £12.770m in the 2012/13 Pensions net interest expense which is offset by a compensating reduction in Actuarial losses on Pension Asset and Liabilities. There is no impact on the net pension liability.

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 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.

7. Acknowledgement

I would like to thank the finance team and colleagues in other services for all the hard work involved in the preparation of the financial statements.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
29 September 2014

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

In preparing this Statement of Accounts, the Director of Finance 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 local authority Code.

The Director of Finance has also:-

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

I, the Director of Finance of Highland Council, state that the Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2014 and of its expenditure and income for the year then ended.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
29 September 2014

CORPORATE GOVERNANCE ASSURANCE STATEMENT

Introduction

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.

Code of Corporate Governance

The Highland 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).

This framework has been updated with regard to the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Public Service Organisations and the Statement has been reviewed by the Depute Chief Executive / Director of Corporate Development. The findings indicate that the Council complies with the additional governance requirements. Although the Council's Local Code has been updated to include specific reference to the Role of the CFO, the future governance position was strengthened by a revision of the Financial Regulations in June 2014 to clarify that the CFO (as well as the Head of Internal Audit and Risk Management) also has direct access to the Audit and Scrutiny committee.

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 Depute Chief Executive/Director of Corporate Development 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

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

In fulfilling these duties, the Depute Chief Executive/Director of Corporate Development has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

In addition, The Highland Council's Director of Finance, through the Head of Internal Audit and Risk Management, has been given the responsibility to review independently and report to the Audit and Scrutiny Committee annually on the adequacy and effectiveness of the Local Code and the extent of compliance with it. The Annual Report on the Code of Corporate Governance 2013/14 was reported to Audit & Scrutiny Committee and full Council in September 2014, and provides substantial assurance which means that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Statement of Internal Control 2013/14

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). Section 2450 of the Standards states that "the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:

- The opinion;
- The summary of work that supports that opinion; and
- A statement on conformance with the Standards and the results of the quality assurance and improvement programme".

The Head of Internal Audit and Risk Management's responsibilities in this regard were discharged through the presentation of the Statement of Internal Control and Annual Report 2013/14 to the Audit and Scrutiny Committee on 19 June 2014.

An internal assessment of compliance with the Standards was undertaken using the CIPFA "Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note". The detailed results of this assessment were provided in a separate report to the June meeting of the Audit & Scrutiny Committee which showed:

- 76% full compliance;
- 14% partial compliance;
- 10% non-compliance with the various areas set out in the Standards.

The main area of non-compliance relates to the need for a Quality Assurance and Improvement Programme (QAIP) which covers all aspects of the internal audit activity and enables conformance with the Standards to be evaluated. There are various performance targets and measures in place to monitor Internal Audit's activities but these have not been included within a QAIP document. This was addressed with an action plan prepared to address the areas of partial and non-compliance which was considered by the Audit & Scrutiny Committee at their September meeting.

On the basis of these reports by the Depute Chief Executive / Director of Corporate Development and the Head of Internal Audit and Risk Management we are satisfied that the Council's governance arrangements are operating effectively.

However the Statement of Internal Control 2013/14 does identify 6 high grade actions, arising from Internal Audit reports, that were due to be implemented in 2013/14 that have only been partially addressed. These relate to Corporate Internet Usage (1), Business Continuity Planning (4) and School Meals Income Collection and Monitoring Systems (1).

In view of the above position, the Head of Internal Audit & Risk Management has written to all Directors and Service administrators of the Performance and Risk Management system (PRMS) and has reminded them of the following:

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

- Actions should only be signed off as complete by the responsible Head of Service
- Where extensions of time are sought to implement agreed actions, requests must be made by the responsible Head of Service to the Head of Internal Audit & Risk Management
- The monitoring of outstanding actions should form part of regular performance monitoring within each Service

In addition to the above:

- Internal audit reports will, in future, be issued to the appropriate Service PRMS administrator in order that they can ensure that all reports are entered onto the system
- Financial Regulations have been updated to reinforce the procedures regarding the audit actions
- Compliance with the above processes will be reviewed during the course of this year and will be reported back to Committee

Work continues to improve the processes associated with the Pension Fund bank account to confirm the accuracy of balances in the Highland Council and Pension Fund accounts. During the year-end audit, External Audit required further analysis of the intercompany account balance. This was provided to the external auditor along with an assurance in the new financial year the Finance Service would regularly analyse the balance on the intercompany account so as to provide appropriate assurance that the balance on that account represented the net position of valid transfers between Highland Council and the Pension Fund. Additional resources will be allocated during the financial year to help with the analysis. The introduction of a new financial information system on 1 April 2015 will remove the need for the intercompany account.

Housing Revenue Account debtors created over several years to match the gross income implied by Housing Information System (HIS) were found to be uncollectable and therefore written off in 2013/14. Investigations will be undertaken to review the management information output from the HIS. Void periods which do not generate a future income stream will be identified and removed from the reconciliation from the HIS and the financial ledger. Monthly rent control account reconciliations will be carried out to identify and resolve issues before the financial year end.

It is also 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 including ensuring that the actions shown as experiencing 'some slippage' at the end of 2013/14 are carried forward into the new Code and that progress is made to deliver these actions.

The actions concerned are: delivery of all efficiency savings from the Corporate Improvement Programme (CIP) relating to the overall Programme and delivery of savings from Business Support and completion of the Communications Strategy and its presentation to Committee. There has been some slippage of savings amounting to £700,000 from the Business Support Project (Corporate Improvement Programme) and these will be delivered in 2014/15, ensuring that the Programme delivers on target over its two year duration. Work is still required to complete the Communications Strategy and to ensure that it is reported to Committee and this is a priority for the new Corporate Communications Manager.

Code of Corporate Governance 2014/15

The Code will be reviewed and the new Code for 2014/15 reported to Audit & Scrutiny Committee and Highland Council in September 2014. In addition to the actions carried forward from the Code and Statement of Internal Control (as above), key areas of work will include:-

- completion of the 14 high grade actions arising from Internal Audit reports delivered during 2013/14 in accordance with the agreed action plans reported to the Audit & Scrutiny Committee and the respective Service Committee;
- continue to implement Public Sector Reform through strong collaboration and partnership working and work on prevention including through Integrated Care in the Highlands and the Highland Community Planning Partnership
- delivery of the outstanding savings and benefits from the Corporate Improvement Programme
- agreement on a new Transformation Programme to support the Council's 4 year Budget Strategy, which is currently under development
- the establishment of the new Service and Committee structure supported by a Leadership Development & Management Development Programme to ensure the Council has the capacity to deal with change, continuous improvement and the continuing challenge of reducing resources
- annual review of Standing Orders and Scheme of Delegation
- embedding the new approach to corporate risk management
- continuing to ensure high levels of governance and conduct from officers and Elected Members in accordance with agreed codes of conduct

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 copy of the code may be obtained from the Chief Executive, Council HQ, Glenurquhart Road, Inverness, IV3 5NX. It is also available on the Council's website at www.highland.gov.uk

James Gray
Convener

Steve Barron
Chief Executive

29 September 2014

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

INDEPENDENT AUDITOR'S REPORT

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

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Funds Accounts, the Charitable, Educational and Other Trust Funds Accounts, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and The Highland Council as at 31 March 2014 and of the income and expenditure of the group and the Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Director of Finance for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Corporate Governance Assurance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director of Audit
Audit Scotland
4th floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

29 September 2014

REMUNERATION REPORT

Highland Council Remuneration Report

All information disclosed in paragraphs 1 and 3 below has been audited by Audit Scotland. The other sections of the Remuneration Report have been reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

The remuneration report provides information on Senior Councillors of the Highland Council and Senior employees of the Highland Council and its subsidiary company High Life Highland.

1. Remuneration Arrangements

i) Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Convener of the Council, the Civic Head, Senior Councillors or Councillors. The Convener and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure and receives a higher salary.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration allowance and expenses incurred by local authority councillors.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2013/14 the remuneration for the Leader of Highland Council is £38,259. The regulations permit the Council to remunerate a Civic Head. The Civic Head role in Highland Council is the Convener in 2013/14. The regulations set out the maximum salary that can be paid to a senior councillor and to the Civic Head as 75% of the Leader salary i.e. £28,694. The Council has also agreed to remunerate the Deputy Leader of the council at this level.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have, excluding the Leader and the Civic Head. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £428,359 and the total number of senior councillors permitted is 19. The council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The total remuneration in 2013/14 for all councillors was £1,446,733. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

The Scheme of Remuneration which encompasses the salaries of all elected members including the Leader, Deputy Council Leader and Convener, Provost and Senior Councillors was agreed at the Council meetings on 31 May 2012: the report is available at www.highland.gov.uk/yourcouncil/committees/thehighlandcouncil/2012-05-31.

In addition to the Senior Councillors of the Council the regulations also set out the remuneration payable to councillors with the responsibility of Convener or Vice Convener of a Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice Convener is a member. The council is also required to pay any pension contributions arising from the Convener or Vice Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice Convener of a Joint Board.

Remuneration of Senior Councillors and Convenors and Vice-Convenors of Joint Boards for 2013-14

The salary listed is the whole salary paid to the councillor in the year and includes basic pay for any period where no Senior Councillor role was held.

2012-13			Senior Councillor Name	Responsibility	2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
3,485	-	3,485	Sandy Park	Convenor until 03.05.12 (£37,880)	-	-	-
2,614	-	2,614	Michael Foxley	Leader of the Council's Administration until 03.05.12 (£28,410)	-	-	-
27,615	-	27,615	David Alston	Budget Leader and Chairman of Budget Information Group until 03.05.12 (£24,480) and Depute Leader of the Council from 17.05.12 (£28,694)	28,694	-	28,694
35,460	-	35,460	Andrew Hendry	Leader of the Opposition from 07.05.11 to 03.05.12 (£19,962) and Leader of the Council from 17.05.12 (£38,259)	38,259	-	38,259
27,615	-	27,615	Jimmy Gray	City of Inverness Chairman and Provost of Inverness until 03.05.12 (£24,480) then Convener of the Council from 17.05.12 (£28,694)	28,694	-	28,694
16,993	551	17,544	William Fernie	Chair of Education Culture and Sport until 03.05.12. (£24,480) then Vice Chair of Audit and Scrutiny from 01.06.12 (£16,396)	16,396	715	17,111

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2012-13					2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
19,676	-	19,676	Andrew Millar	Vice Chair of Education Culture and Sport to 03.05.12 (£19,962) then Chair of Community Safety, Public Engagement & Equalities from 01.06.12 (£20,162)	20,162	-	20,162
16,993	902	17,895	Hamish Fraser	Chair of Gaelic to 03.05.12 (£24,480) then Chair - Gaelic Implementation Group from 01.06.12 & Leader Skye, Ross & Cromarty from 11.12.13 (£24,725)	18,948	-	18,948
20,092	-	20,092	Margaret Davidson	Chair of Housing and Social Work to 03.05.12 (£24,480) then Chair of Audit & Scrutiny from 01.06.12 (£20,162)	20,162	-	20,162
23,432	-	23,432	Alasdair Christie	Vice Chair of Housing and Social Work to 03.05.12 (£19,962) then Chair of Adult and Children's Services from 01.06.12 (£24,725)	24,725	-	24,725
2,252	-	2,252	Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board to 03.05.12 (£24,480)	-	-	-
16,577	-	16,577	Isobel McCallum	Vice Chair of Planning Environment and Development to 03.05.12 (£19,962) and Chair - North Planning & application committee from 19.06.12	16,396	-	16,396

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012-13					2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
23,814	-	23,814	Carolyn Wilson	Chair of Resources to 03.05.12 (£24,480) then Leader of the Opposition from 01.06.12 (£24,725)	24,725	-	24,725
19,676	7,629	27,305	Linda Munro	Vice Chair of Resources to 03.05.12 (£19,962) then Champions' Coordinator and Children's Champion from 01.06.12 (£20,162)	20,162	6,629	26,791
2,252	-	2,252	John Laing	Chair of Transport, Environment and Community Services until 03.05.12 (£24,480)	-	-	-
16,577	-	16,577	Brian Murphy	Vice Chair of Transport, Environment and Community Services to 03.05.12 (£19,962)	-	-	-
23,847	-	23,847	David Fallows	Chair of Audit and Scrutiny from 23.06.11 to 03.05.12 (£24,480) then Chair of Finance, Housing and Resources from 01.06.12 (£24,725) and Pensions Committee from 01.06.12	24,725	2,486	27,211
1,837	-	1,837	David Chisholm	Chair of Ross, Skye and Lochaber Planning Applications and Review Committee to 10.01.12 and Chair of North Planning Application Committee from 10.01.12 to 03.05.12 (£19,962)	-	-	-
1,837	-	1,837	Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12 to 03.05.12	-	-	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012-13					2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
1,837	-	1,837	Peter Corbett	Chair of Highland Licensing Committee until 03.05.12 (£19,962)	-	-	-
21,440	-	21,440	Ian Brown	Leader - Inverness City and Area from 13.08.12 (£24,725)	24,725	-	24,725
19,333	5,283	24,616	George Farlow	Vice Chair of Planning, Environment and Development from 01.06.12 (£20,162)	20,162	4,478	24,640
19,300	-	19,300	Elizabeth Macdonald	Vice Chair of Adult and Children's Services from 01.06.12 (£19,962) and Leader for Nairn, Badenoch & Strathspey from 10.09.13 (£21,544)	21,923	-	21,923
21,281	678	21,959	Deirdre Mackay	Leader – Caithness and Sutherland from 20.08.12 (£24,725)	24,725	-	24,725
19,333	-	19,333	Elizabeth McAllister	Vice Chair of Transport, Environmental and Community Services from 01.06.12 (£20,162)	20,162	-	20,162
21,595	1,194	22,789	Graham Phillips	Chair of Transport, Environmental and Community Services from 01.06.12 (£24,725)	24,725	2,782	27,507
23,089	400	23,489	Thomas Prag	Chair Planning, Environment and Development from 01.06.12 (£24,725)	24,725	337	25,062
19,221	-	19,221	Maxine Smith	Chair of Licensing Committee and Chair of Licensing Board from 01.06.12 (£20,162)	20,162	-	20,162

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012-13					2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
1,494	-	1,494	Richard Durham	Convenor of Highland and Islands Fire Board until 03.05.12 (£28,410)	-	-	-
-	-	-	Graham Mackenzie	Vice Chair Adult & Children Services from 28.06.13 (£20,162)	19,243	99	19,342
-	-	-	Thomas MacIennan	Leader Lochaber Area Committee from 26.06.13 (£24,725)	21,389	-	21,389
16,234	-	16,234	Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board until 03.05.12 and then again from 21.06.12 (£20,497)	16,396	-	16,396

Full year equivalent salary is shown in brackets

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Where Highland Council members hold senior positions on related Joint Boards their costs have been recharged as follow:

2012-13			Councillor	Board Recharged	2013-14		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
4,148	-	4,148	Hamish Fraser, Vice Convenor from 06.05.12 to 31.03.13 (£21,308)	Northern Joint Police Board	-	-	-
1,120	-	1,120	Richard Durham, Convenor until 03.05.12 (£28,410)	Highland and Islands Fire Board	-	-	-
4,135	622	4,757	Audrey Sinclair, Vice Convenor from 07.06.12 to 31.03.13 (£21,308)	Highland and Islands Fire Board	-	-	-
3,526	-	3,526	Helen Carmichael, Convenor until 03.05.12 and then again from 21.06.12 (£20,497)	Highland and Western Isles Valuation Joint Board	4,101	-	4,101

Full year equivalent salary is shown in brackets

4 Highland councillors also sit on the Board of High Life Highland, however these are non-remunerated positions.

Members' allowances and expenses

The Council paid the following amounts to members of the council during the year

2012/13 £000		2013/14 £000
1,415	Remuneration	1,447
259	Travel and Subsistence	253
44	All other expenses	37
1,718	Total	1,737

ii) Senior Employees

The salary of the Chief Executive is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) of Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Highland Council for the period 2008 to 2014. The salaries of the Directors are based on a fixed percentage of the Chief Executive's salary. The current arrangement is that Directors receive 75% of the Chief Executive's salary. This arrangement was agreed through approval of the Chief Executives report on Directors' Salaries at Highland Council on 24 June 2004.

The salary of the Chief Executive of High Life Highland is based on national terms and conditions and agreed by the Board of High Life Highland following full evaluation of the post and comparison with similar organisations.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012-13				2013-14					
Salary, fees and allowances	Taxable expenses	Compensation for Loss of Office	Total Remuneration	Senior Employee	Position	Salary, fees and allowances	Taxable expenses	Compensation for Loss of Office	Total Remuneration
105,450	-	-	105,450	William Alexander	Director of Health and Social Care (£106,503)	106,503	-	-	106,503
115,995	-	-	115,995	Stephen Barron	Depute Chief Executive from 08.09.11 to and Chief Executive from 01.09.13** (£141,513)	131,830	-	-	131,830
105,450	-	-	105,450	Stuart Black	Director of Planning and Development (£106,503)	106,503	-	-	106,503
144,642	-	-	144,642	Alistair Dodds	Chief Executive to 31.08.13* (£141,513)	59,198	-	-	59,198
105,450	-	-	105,450	Hugh Fraser	Director of Education Culture and Sport (£106,503)	106,503	-	-	106,503
105,450	-	-	105,450	Derek Yule	Director of Finance (£106,503)	106,503	-	-	106,503
105,450	-	-	105,450	Neil Gilles	Director of Transport, Environmental and Community Services to 31.01.14 (£106,503)	88,753	-	77,105	165,858
								Plus Annual Compensation of £5,976	

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

105,450	-	-	105,450	Michelle Morris	Assistant Chief Executive from 04.02.08 and Depute Chief Executive from 01.12.13 (£117,153)	110,378	-	-	110,378
-	-	-	-	William Gilfillan	Director of Community Services from 01.02.14 (£106,503)	78,584	-	-	78,584
77,753	-	-	77,753	Ian Murray	Chief Executive, High Life Highland (£79,581)	79,581	-	-	79,581

Full year equivalent salary is shown in brackets

Remuneration of Senior Employees

* 2013-14: includes £234; paid to the former Chief Executive in his role as Returning Officer for the local by-election in May 2013. 2012/13 figure includes £4,530 relating to role as Returning Officer for the Local Government election in May 2012.

** 2013-14: includes £468: paid to the Chief Executive in his role as Returning Officer for the local by-elections in November and December 2013.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2013-14	2012-13
50,000 - 54,999	84	85
55,000 - 59,999	33	42
60,000 - 64,999	18	20
65,000 - 69,999	9	11
70,000 - 74,999	11	11
75,000 - 79,999	2	-
85,000 - 89,999	-	-
105,000 - 109,999	4	6
110,000 - 114,999	1	-
115,000 - 119,999	-	1
130,000 - 134,999	1	-
140,000 - 144,999	-	1
165,000 - 170,000	1	-

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. None of these exit packages relate to compulsory redundancy. Included in the 2013/14 figures are 8 employees who were members of the Highland Council Pension Fund (2012/13 26) the gross actuarial cost of these exit packages is £0.470m (2012/13 £1.316m) and the net savings from these severance packages, on an actuarial basis are £0.570m (2012/13 £3.262m). The 2013/14 figures also include 3 employees who although approved in the 2013/14 year will not exit the Council until the 2014/15 financial year. The accrued cost of these packages is £0.140m. The 2012/13 figures have been restated to include one exit package which was omitted from the prior year disclosures although the exit package was approved prior to 31st March 2013.

Number of Employees 2012/13 (restated)	Total Cost 2012/13 £ (restated)	Cost Band	Number of Employees 2013/14	Total Cost 2013/14 £
38	246,061	£0 - £20,000	11	96,201
7	193,779	£20,000 - £40,000	5	137,565
2	98,335	£40,001 - £60,000	2	99,681
5	340,843	£60,001 - £80,000	1	78,632
4	360,487	£80,001 - £100,000	2	184,785
8	933,179	£100,001 - £150,000	2	245,382
1	191,848	£150,001 - £200,000	-	-
-	-	£200,001 - £250,000	-	-
-	-	£250,001 - £300,000	1	266,806
-	-	£300,001 - £350,000	-	-
64	2,364,532	Total	24	1,109,052

2. Appointments

i) Councillors

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. On 17 May 2012 the Council appointed the positions of Leader of the Council, Depute Leader of the Council and Convener. Most other Senior Councillors were appointed at Council on 31 May 2012 with the Leader of Inverness City and Area being appointed on 13 August 2012 and the Leader of Caithness and Sutherland on 20 August 2012.

The Senior Councillor posts held in the Council are:

Leader
Depute Leader
Convener
Chair of Finance, Housing & Resources Committee
Chair of Adult and Children's Services Committee
Vice-Chair of Adult and Children's Services Committee
Chair of Planning, Environment and Development Committee
Vice-Chair of Planning, Environment and Development Committee
Chair of Transport, Environmental and Community Services Committee
Vice-Chair of Transport, Environmental and Community Services Committee
Chair of Community Safety, Public Engagement and Equalities Committee
Chair of Licensing Committee (and Chair of Licensing Board)
Leader - Inverness
Leader – Caithness and Sutherland
Leader – Nairn, Badenoch and Strathspey
Leader – Lochaber
Leader – Ross, Skye and Cromarty
Champions' Coordinator and Children's Champion
Chair of Audit and Scrutiny Committee
Leader of Opposition

ii) Senior Employees

The appointment of Directors is agreed by an Appointments Panel comprising 10 Members on political balance (4 Independent, 3 SNP, 2 Lib Dem and 1 Labour), this includes the Leader (SNP Member) and Depute Leader of the Council (Lib Dem Member) and the Leader of the Opposition (Independent Member). The panel is chaired by the Convener of the Council (Labour Member).

The current Chief Executive was appointed during the year on 1st September 2013. There was also a change to the senior management team structure as the Director of Transport, Environmental and Community Services post was replaced by the Director of Community Services post on 1st February 2014.

3. Pension Benefits – Councillors and Senior Employees

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

The pension scheme is a funded pension scheme consisting of payments from members of the scheme as well as the employer.

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees.

The 2013-14 contribution tiers and rates are as follows:

Whole time pay	Contribution rate 2013-14
On earnings up to and including £19,800	5.5%
On earnings above £19,800 and up to £24,200	7.25%
On earnings above £24,200 and up to £33,200	8.5%
On earnings above £33,200 and up to £44,200	9.5%
On earnings above £44,200	12%

2012-13 contribution tiers and rates

Whole time pay	Contribution rate 2012-13
On earnings up to and including £19,400	5.5%
On earnings above £19,400 and up to £23,700	7.25%
On earnings above £23,700 and up to £32,500	8.5%
On earnings above £32,500 and up to £43,300	9.5%
On earnings above £43,300	12%

In 2013/14 the employer's contribution rate is 18% of pensionable pay.

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on $1/60^{\text{th}}$ of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on $1/80^{\text{th}}$ and a lump sum based on $3/80^{\text{th}}$ of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Senior Councillor Pension Benefits

The pension entitlements for Senior Councillors for the year to 31 March 2014 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.14	Difference from March 2013
		31.03.14	31.03.13			
		£	£			
					£000	£000
Sandy Park	Convenor until 03.05.12	-	1,196	Pension: Lump Sum:	- -	- -
Michael Foxley	Leader of the Council's Administration until 03.05.12	-	897	Pension: Lump Sum:	- -	- -
David Alston	Budget Leader and Chairman of Budget Information Group until 03.05.12 and Depute Leader of the Council from 17.05.12	5,161	4,912	Pension: Lump Sum:	3 2	1 -
Andrew Hendry	Leader of the Opposition from 07.05.11 to 03.05.12 and Leader of the Council from 17.05.12	6,881	6,114	Pension: Lump Sum:	11 25	1 1
William Fernie	Chair of Education Culture and Sport to 03.05.12	2,949	3,182	Pension: Lump Sum:	3 2	1 -
Andrew Millar	Vice Chair of Education Culture and Sport to 03.05.12 then Chair of Community Safety, Public Engagement and Equalities from 01.06.12	3,626	3,542	Pension: Lump Sum:	3 2	1 -
Hamish Fraser	Chair of Gaelic to 03.05.12	3,040	-	Pension: Lump Sum:	- -	- -
Margaret Davidson	Chair of Housing and Social Work to 03.05.12 then Chair of Audit & Scrutiny from 01.06.12	3,626	3,684	Pension: Lump Sum:	3 2	1 -
Alasdair Christie	Vice Chair of Housing and Social Work to 03.05.12 then Chair of Adult and Children's Services from 01.06.12	4,447	4,150	Pension: Lump Sum:	2 -	1 -
Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board to 03.05.12	-	773	Pension: Lump Sum:	- -	(2) (2)
Isobel McCallum	Vice Chair of Planning Environment and Development to 03.05.12	2,949	3,040	Pension: Lump Sum:	2 1	- -

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.14	Difference from March 2013
		31.03.14	31.03.13			
		£	£			
					£000	£000
Carolyn Wilson	Chair of Resources to 03.05.12 then Leader of the Opposition from 01.06.12	4,447	4,287	Pension: Lump Sum:	3 2	1 -
Linda Munro	Vice Chair of Resources to 03.05.12 then Champions' Coordinator and Children's Champion from 01.06.12	3,626	3,542	Pension: Lump Sum:	2 1	- -
John Laing	Chair of Transport, Environment and Community Services to 03.05.12	-	773	Pension: Lump Sum:	- -	(5) (11)
Brian Murphy	Vice Chair of Transport, Environment and Community Services to 03.05.12	-	3,040	Pension: Lump Sum:	- -	(2) (1)
David Fallows	Chair of Audit and Scrutiny Committee from 23.06.11 to 03.05.12 then Chair of Finance, Housing and Resources from 01.06.12	4,447	4,293	Pension: Lump Sum:	2 2	- (9)
Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12 to 03.05.12	-	630	Pension: Lump Sum	- -	(2) (10)
Peter Corbett	Chair of Highland Licensing Committee to 03.05.12	-	630	Pension: Lump Sum:	- -	(1) (6)
Ian Brown	Leader – Inverness from 13.08.12	4,447	3,735	Pension: Lump Sum	2 1	- -
George Farlow	Vice Chair of Planning, Environment and Development from 01.06.12	3,626	3,424	Pension: Lump Sum	2 1	- -
Elizabeth Macdonald	Vice Chair of Adult and Children's Services from 01.06.12	3,907	3,418	Pension: Lump Sum	4 7	1 -
Elizabeth McAllister	Vice Chair of Transport, Environmental and Community Services from 01.06.12	3,626	3,424	Pension: Lump Sum	2 1	- -
Graham Phillips	Chair of Transport, Environmental and Community Services from 01.06.12	4,447	3,520	Pension: Lump Sum	1 -	(1) -
Thomas Prag	Chair Planning, Environment and Development from 01.06.12	4,447	4,032	Pension: Lump Sum	2 1	- -

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.14	Difference from March 2013
		31.03.14	31.03.13			
		£	£			
					£000	£000
Maxine Smith	Chair of Licensing Committee and Chair of Licensing Board from 01.06.12	3,626	1,198	Pension: Lump Sum	- -	- -
Richard Durham	Convenor of Highland and Islands Fire Board to 03.05.12	-	897	Pension: Lump Sum:	- -	(6) (18)
Graham Mackenzie	Vice Chair Adult & Children Services from 28.06.13	1,040	736	Pension: Lump Sum:	1 -	1 -
Thomas MacLennan	Leader - Lochaber from 26.06.13	1,137	736	Pension: Lump Sum	1 -	1 -
Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board to 03.05.12 and then again from 21.06.12	1,126	3,654	Pension: Lump Sum:	2 2	- -
	Total	76,628	77,459	Pension: Lump Sum:	51 52	(10) (56)

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current appointment.

Senior Employee Pension Benefits

The pension entitlements of Senior Employees for the year to 31 March 2014 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.14 £000	Difference from March 2013 £000
		31.03.14	31.03.13			
		£	£			
William Alexander	Director of Health and Social Care	19,171	18,981	Pension: Lump Sum:	46 113	2 2
Stephen Barron	Director of Housing and Property from 18.02.08 and Depute Chief Executive from 08.09.11 to 31.08.13. Chief Executive from 01.09.13	23,645	20,879	Pension: Lump Sum:	47 109	7 13
Stuart Black	Director of Planning and Development	19,171	18,981	Pension: Lump Sum:	40 93	2 -
Alistair Dodds	Chief Executive to 31.08.13	10,613	25,220	Pension: Lump Sum:	51 311	(11) 153
Hugh Fraser	Director of Education Culture and Sport	19,171	18,981	Pension: Lump Sum:	51 126	2 1
Derek Yule	Director of Finance	19,171	18,981	Pension: Lump Sum:	47 113	2 -
Neil Gilles	Director of Transport, Environmental and Community Services to 31.01.14	15,975	18,981	Pension: Lump Sum:	38 255	(9) 134
Michelle Morris	Assistant Chief Executive from 04.02.08 and Depute Chief Executive from 01.12.13	19,868	18,981	Pension: Lump Sum:	32 68	3 3
William Gilfillan	Director of Community Services from 1.02.14	14,145	-	Pension: Lump Sum:	26 58	3 5
Ian Murray	Chief Executive, High Life Highland	14,325	13,995	Pension: Lump Sum:	34 81	3 2
	Total	175,255	173,980	Pension: Lump Sum	412 1,327	4 313

James Gray
Convener

S Barron
Chief Executive

29 September 2014

MOVEMENT IN RESERVES STATEMENT 2012/13

(RESTATED)	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2012	32,402	6,804	1,318	1,665	2,226	30,238	74,653	866,795	941,448
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services (accounting basis)	21,103	(2,983)	-	-	-	-	18,120	-	18,120
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(25,867)	(25,867)
Total comprehensive income and expenditure	21,103	(2,983)	-	-	-	-	18,120	(25,867)	(7,747)
Adjustments between accounting basis and funding basis under regulations (note 5)	(13,162)	1,633	199	-	-	-	(11,330)	11,330	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	7,941	(1,350)	199	-	-	-	6,790	(14,537)	(7,747)
Transfers to/from other statutory reserves	(2,453)	1,350	-	2	168	933	-	-	-
Increase/(decrease) in 2012/13	5,488	-	199	2	168	933	6,790	(14,537)	(7,747)
Balance at 31 March 2013	37,890	6,804	1,517	1,667	2,394	31,171	81,443	852,258	933,701

MOVEMENT IN RESERVES STATEMENT 2013/14

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2013	37,890	6,804	1,517	1,667	2,394	31,171	81,443	852,258	933,701
Movement in reserves during 2013/14									
Surplus/(deficit) on provision of services (accounting basis)	(5,884)	3,208	-	-	-	-	(2,676)	-	(2,676)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(48,355)	(48,355)
Total comprehensive income and expenditure	(5,884)	3,208	-	-	-	-	(2,676)	(48,355)	(51,031)
Adjustments between accounting basis and funding basis under regulations (note 5)	10,583	(2,844)	368	-	-	-	8,107	(8,107)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	4,699	364	368	-	-	-	5,431	(56,462)	(51,031)
Transfers to/from other statutory reserves	(2,249)	160	-	2	15	532	(1,540)	1,540	-
Increase/(decrease) in 2013/14	2,450	524	368	2	15	532	3,891	(54,922)	(51,031)
Balance at 31 March 2014	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2012/13 (Restated)				2013/14			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
260,093	(10,825)	249,268	Education services		262,610	(9,990)	252,620
70,367	(63,440)	6,927	Housing services		74,206	(60,709)	13,497
40,364	(46,226)	(5,862)	Council Housing – Housing Revenue Account		43,782	(47,678)	(3,896)
30,706	(2,893)	27,813	Cultural and related services		29,480	(2,523)	26,957
45,311	(5,843)	39,468	Environmental services		68,231	(31,820)	36,411
54,362	(7,965)	46,397	Roads and transport services		83,577	(37,527)	46,050
20,258	(13,029)	7,229	Planning and development services		20,521	(14,151)	6,370
138,481	(12,954)	125,527	Social work services		142,990	(13,400)	129,590
8,311	(6,997)	1,314	Central Services to the public		12,539	(19,495)	(6,956)
			Joint board requisitions				
16,375	(728)	15,647	Northern Joint Police Board		2,100	-	2,100
15,614	-	15,614	Highland and Islands Fire Board		33	-	33
2,378	-	2,378	Highland and Western Isles Valuation Joint Board		2,345	-	2,345
89	-	89	Highland and Islands Transport Partnership		89	-	89
10,353	(154)	10,199	Corporate and democratic core	7	10,647	(29)	10,618
5,428	-	5,428	Non Distributed Costs	8	3,842	-	3,842
718,490	(171,054)	547,436	Cost of services carried forward		756,992	(237,322)	519,670

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2012/13 (restated)					2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
718,490	(171,054)	547,436	Cost of services brought forward		756,992	(237,322)	519,670
		328	Other operating expenditure	9			216
		57,813	Financing and investment income and expenditure	10			58,328
		(623,697)	Taxation and non-specific grant Income	11			(575,538)
		(18,120)	Deficit/(surplus) on provision of services				2,676
		7,778	Deficit on revaluation of non-current assets				9,061
		18,089	Remeasurements of the net defined liability				39,294
		25,867	Other comprehensive income and expenditure				48,355
		7,747	Total comprehensive income and expenditure				51,031

BALANCE SHEET

31/03/13 £000		Notes	31/03/14 £000
2,032,647	Property, plant and equipment	28	2,083,968
160	Intangible assets	32	80
1,003	Long term investments	34	1,061
42,428	Long term debtors (net of impairment)	36	41,314
<u>2,076,238</u>	Long term assets		<u>2,126,423</u>
5,005	Short term investments		31,092
5,570	Inventories	35	5,551
51,622	Short term debtors	37	51,761
63,793	Cash and cash equivalents	18	41,509
2,023	Assets held for sale	33	989
<u>128,013</u>	Current assets		<u>130,902</u>
(55,805)	Short term borrowing	43	(56,316)
(103,576)	Short term creditors	38	(100,916)
(1,076)	Provisions	39	(1,224)
-	Capital Grant Receipts in Advance		(5,054)
<u>(160,457)</u>	Current liabilities		<u>(163,510)</u>
(2,250)	Long term provisions		-
(652,179)	Long term borrowing	43	(694,565)
(455,664)	Other long term liabilities	40	(516,580)
<u>(1,110,093)</u>	Long term liabilities		<u>(1,211,145)</u>
<u>933,701</u>	Net assets		<u>882,670</u>

BALANCE SHEET (CONTINUED)

31/03/13 £000		Notes	31/03/14 £000
1,517	Capital Receipts Reserve		1,885
1,667	Renewal and Repair Fund		1,669
31,171	Capital Fund		31,703
2,394	Insurance Fund		2,409
37,890	General Fund		40,340
6,804	Housing Revenue Account		7,328
81,443	Usable reserves	12	85,334
366,359	Revaluation Reserve		353,235
(329,521)	Pensions Reserve		(392,349)
859,392	Capital Adjustment Account		878,289
(35,097)	Financial Instruments Adjustment Account		(33,075)
(8,875)	Employee Statutory Adjustment Account		(8,764)
852,258	Unusable reserves	13	797,336
933,701	Total reserves		882,670

The unaudited Statement of Accounts was issued on 16 June 2014 and the audited Statement of Accounts was authorised for issue on 29 September 2014.

Derek Yule B.Com. CPFA. IRRV(Hons)
 Director of Finance
 29 September 2014

CASH FLOW STATEMENT

2012/13 (restated) £000		Notes	2013/14 £000
18,120	Net (deficit)/surplus on the provision of services		(2,676)
89,107	Adjust net (deficit)/surplus on the provision of services for non-cash movements	14	62,342
<u>(40,593)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		<u>(22,679)</u>
66,634	Net cash inflow from operating activities	15	<u>36,987</u>
(116,364)	Investing activities	16	(134,463)
56,237	Financing activities	17	75,192
<u>6,507</u>	Net increase or decrease in cash and cash equivalents		<u>(22,284)</u>
57,286	Cash and cash equivalents at 1 April 2013		63,793
<u>63,793</u>	Cash and cash equivalents at 31 March 2014	18	<u>41,509</u>

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Accounting policies
2. Accounting Standards issued but not yet adopted
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1 Accounting policies

General principles

The Statement of Accounts summarises the transactions of the Council for the financial year 2013/14 and its financial position at 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code) and the Service reporting code of practice for local authorities 2013/14 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of income and expenditure

The accounts have been prepared on an accruals basis in accordance with the Code of Practice.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Expenses in relation to services received (including those rendered by officers of the Council) are recorded as expenditure when the services are received, rather than when payments are made
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates) income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services

Prior period adjustments and changes in accounting policies and estimates and errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Board's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

The 2013/14 Code's adoption of the 2011 amendments to IAS 19 is a change of accounting policy. The nature of the change is that there are new classes of components of defined benefit cost to be recognised in the financial statements (ie net interest on the net defined benefit liability (asset)), and, where there is a material impact, new definitions or recognition criteria for service costs, eg past service costs and new recognition criteria for termination benefits. The change in accounting policy has had no effect on opening balances but had the effect of increasing both the prior year deficit on the provision of services and other comprehensive income by £12.770m.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening general fund balances and comparative amounts for the prior period.

Due to a misallocation net expenditure in the 2012/13 Comprehensive Income and Expenditure Account for Social Work was understated by £6.626m and Housing overstated by the same amount. The 12/13 comparative figures have been adjusted accordingly and this had no impact on the opening balances at 1 April 2013.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which are repayable on demand and form an integral part of the Council's cash management.

Accounting for the costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. In 2013/14 the scheme completed its introductory phase. The Council was required to purchase and surrender allowances retrospectively on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted both a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowance required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of the Council's services and is apportioned to the services on the basis of energy consumption.

Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to cover depreciation, revaluation or impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to loans fund principal charges. Depreciation, revaluation and impairment losses are therefore replaced by loans fund principal charges in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Employee benefits

Short-term employee benefits such as wages and salaries, bonuses and paid annual leave for current employees, are recognised as an expense in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the

next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Employee Statutory Adjustment Account.

Termination benefits are amounts payable either as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or following an employee's decision to accept voluntary redundancy. These benefits are charged to the Comprehensive Income and Expenditure Statement on an accruals basis when the Council is demonstrably committed to terminating the employment of an employee.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner during the year and not the amount calculated according to the relevant accounting standards. Appropriations are made in the Movements in Reserves Statement to and from the Pension Reserve to remove the notional charges for pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Retirement benefits

Teachers are admitted to the Teachers Superannuation Scheme, which is administered by the Scottish Government. Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The arrangements for both the Teachers' and NHS Schemes mean that assets and liabilities cannot be attributed specifically to the Council.

Both schemes are therefore accounted for as if they were defined contribution schemes – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Services line in the Comprehensive Income and Expenditure Statement is charged with employer's contributions payable to Teachers and NHS pensions in the year.

Employees of the Council are admitted to The Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit final salary scheme. In addition the Council has liabilities for discretionary pension payments outside the main scheme.

Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The assets of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value
- The liabilities of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method which assesses the present value of the future payments that will be made in relation to retirement benefits earned to date, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service accrued in the year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- net interest on the defined benefit liability, ie net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements of the net defined benefit liability (asset) comprising:

- the return on plan assets – excluding amounts included in net interest on the net pensions liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Highland Council pension fund

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Board to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers and former NHS employees) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (soft loans) in support of policy objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Any unused grants are earmarked within the General Fund to finance the expenditure when it arises.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement.

Interests in companies and other entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Operating Leases

The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, generally meaning that rentals are charged when they become payable.

The Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Property, plant and equipment

Assets that have physical substance and are held for use in the supply of services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Classification as a non-current asset is subject to a de minimus level of £0.006m for vehicles, plant and machinery and £0.020m for all other assets.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- components – straight line allocation over the useful life of the asset as determined by a suitably qualified officer
- all other assets – fair value, determined the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped together.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £3.0m and over will be considered for componentisation.
- Of those assets, for the purpose of determining a “significant” component of an asset, components with a value of 20% in relation to the overall value of the asset or over £500,000 will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Where assets no longer meet the

criteria to be classified as held for sale they will be re-valued at existing use value and reclassified to Property, Plant and Equipment. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie, freehold land and certain Community Assets) and assets that are not yet available for use (ie, assets under construction and assets held for sale).

Depreciation is calculated on the following bases:

- council dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer, ranging from 20 years to 60 years
- vehicles, plant and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, ranging from 3 years to 25 years
- infrastructure – straight-line allocation over 30 years for roads and 60 years for all other assets

No depreciation is charged in the year of acquisition but a full year's depreciation is charged in the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Heritage assets

No heritage assets have been recognised on the balance sheet as cost information is not readily available and the benefits of obtaining valuations for these items would not justify the cost.

Intangible assets

Expenditure on identifiable non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as a result of past events (for example computer software) is capitalised when it will bring benefits to the Council for more than one financial year.

The balance is amortised to the Comprehensive Income and Expenditure Statement over its useful life. The amortisation basis is reviewed on an annual basis to ensure any impairment is identified.

Private Finance Initiative (PFI) and Similar Contracts

Highland Council has two PFI contracts which are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in note 13.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards issued but not yet adopted

Amendments to the following accounting standards will be adopted within the 2014/15 Code effective from 1 April 2014. There is therefore no impact on the 2013/14 financial statements.

IFRS 13 Fair Value Measurement
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in other Entities
IAS 27 Separate Financial Statements
IAS 28 Investing in Associates and Joint Ventures
IAS 32 Financial Instruments: Presentation

Changes arising from the adoption of these standards are not expected to have any impact on the General Fund balance.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision
- The Council is a member of Caledonia Community Leisure Ltd a charitable company, limited by guarantee which operates the Inverness Leisure complex owned by the Council. It has been determined that the Council does not have control of the company and it is not a subsidiary of the Council

4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.8m for every year that useful lives had to be reduced.
Provisions	The Council has made a provision of £0.564m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase or decrease over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would have the effect of increasing or reducing the provision needed by £0.056m.
Arrears	At 31 March 2014 the Council had a balance of sundry debtors of £12.989m. A review of balances suggested that an allowance for impairment of £2.968m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of the amount of doubtful debts would require an additional impairment to be made.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in mortality rates and expected returns on pension fund assets.	The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in note 23.
Service Concession Arrangement (PPP1)	The Council has a contract with Community Schools (Highlands) Ltd (the “contractor”) to provide Operational Facilities which requires the contractor to provide 4 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at January in each year.	The indexation adjustment includes an efficiency factor which for 2013/14 resulted in indexation being applied to approximately 86% of the Unitary Charge. If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £22,855 in 2013/14.
Service Concession Arrangement (PPP2)	The Council has a contract with Alpha Schools (Highlands) Ltd (the “contractor”) to provide Operational Facilities which requires the contractor to provide 10 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPIX as at January in each year.	The indexation adjustment applies to 48% of the Unitary Charge as per the terms of the Project Agreement. If RPIX should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £99,326 in 2013/14.

5. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2013/14	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	56,351	14,193	-	70,544	(70,544)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(31,348)	(8,199)	-	(39,547)	39,547	-
Net (gain)/loss on sale of non current assets	498	(282)	-	216	(216)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(27,133)	(6,270)	-	(33,403)	33,403	-
Repayment of Finance Lease Creditors	(3,468)	-	-	(3,468)	3,468	-
Capital expenditure charged against the General Fund and HRA balances	(4,731)	(3,353)	-	(8,084)	8,084	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	3,575	3,575	(3,575)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(3,207)	(3,207)	3,207	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2013/14

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,540)	(482)	-	(2,022)	2,022	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	43,205	3,078	-	46,283	(46,283)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(21,236)	(1,513)	-	(22,749)	22,749	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(95)	(16)	-	(111)	111	-
Total adjustments 2013/14	10,583	(2,844)	368	8,107	(8,107)	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012/13 (Restated)	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	40,334	12,852	-	53,186	(53,186)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(40,593)	-	-	(40,593)	40,593	-
Net loss on sale of non current assets	(104)	432	-	328	(328)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(26,502)	(6,181)	-	(32,683)	32,683	-
Repayment of Finance Lease Creditors	(3,348)	-	-	(3,348)	3,348	-
Capital expenditure charged against the General Fund and HRA balances	(328)	(6,403)	-	(6,731)	6,731	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	2,871	2,871	(2,871)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(2,672)	(2,672)	2,672	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012/13 (Restated)	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,574)	(448)	-	(2,022)	2,022	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	41,841	2,671	-	44,512	(44,512)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(21,251)	(1,295)	-	(22,546)	22,546	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,717)	5	-	(1,712)	1,712	-
Total adjustments 2012/13	(13,162)	1,633	199	(11,330)	11,330	-

6. Movement in Reserve Statement – transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred back from earmarked reserves to meet General Fund expenditure in 2013/14.

	Balance at 1/04/12 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/13 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/14 £000
Strategic Change and Development Fund	-	-	5,000	-	5,000	(1,471)	1,078	21	4,628
NHS Adult Care	-	-	-	-	-	-	3,500	-	3,500
IT Investment Fund	1,457	(274)	300	8	1,491	(315)	1,614	7	2,797
Devolved School Management	2,770	(505)	-	-	2,265	(436)	-	-	1,829
Grants and match funding	692	(692)	462	3	465	(372)	1,675	-	1,768
Business Rates Incentivisation Scheme	-	-	1,300	-	1,300	-	-	6	1,306
Road Maintenance 2013-14	-	-	2,000	-	2,000	(2,000)	1,250	-	1,250
Welfare Issues	-	-	-	-	-	-	1,166	-	1,166
Community Challenge Fund	-	-	1,000	-	1,000	-	-	5	1,005
Additional Support Needs	-	-	-	-	-	-	1,000	-	1,000
Pathfinder	-	-	-	-	-	-	823	-	823
Central Energy Efficiency Fund	747	-	-	5	752	(26)	-	4	730
Police Funding	-	-	3,913	-	3,913	(3,191)	-	-	722
Spend to Save Fund	860	(168)	-	4	696	(169)	-	3	530
Inverness Royal Academy Extension	150	-	-	1	151	-	-	1	152
Caithness Heat and Power Ltd	648	(246)	-	3	405	(405)	-	-	-
Future Change Implementation	1,083	(802)	-	4	285	(285)	-	-	-
Building Maintenance Costing Project	537	(539)	-	2	-	-	-	-	-
Total	8,944	(3,226)	13,975	30	19,723	(8,670)	12,106	47	23,206

7. Comprehensive Income and Expenditure Statement – Corporate and democratic core costs

Corporate and democratic core costs include the costs of democratic representation and management relating to corporate policy making and all other elected member based activities. It also includes the costs of corporate management relating to the activities of the general running of the Council.

2012/13 Net £000		2013/14		
		Expenditure £000	Income £000	Net £000
6,713	Democratic representation and management	6,791	-	6,791
3,486	Corporate management	3,856	(29)	3,827
<u>10,199</u>	Total	<u>10,647</u>	<u>(29)</u>	<u>10,618</u>

8. Comprehensive Income and Expenditure Statement – Non distributed costs

Non distributed costs are excluded from individual services and comprise:

2012/13 £000		2013/14 £000
3,513	Pension fund charges for added years and early retirement	3,686
851	Pension fund past service contributions	55
778	Pension fund settlements and curtailments	-
286	Depreciation of non-operational properties	101
<u>5,428</u>		<u>3,842</u>

9. Comprehensive Income and Expenditure Statement – Other operating expenditure

2012/13 £000		2013/14 £000
328	Losses on the disposal of non-current assets	216

10. Comprehensive Income and Expenditure Statement – Financing and investment income and expenditure

2012/13 £000		2013/14 £000
(209)	Gains on trading operations (note 20)	(88)
43,056	Interest payable and similar charges	44,167
15,299	Pensions net interest expense	14,692
(333)	Interest and investment income	(443)
<u>57,813</u>		<u>58,328</u>

11. Comprehensive Income and Expenditure Statement – Taxation and non specific grant income

2012/13 £000		2013/14 £000
(364,996)	Revenue support grant	(336,229)
(110,716)	Council tax income	(99,951)
(107,391)	Non-Domestic rates	(114,154)
<u>(40,594)</u>	Capital grants and contributions	<u>(25,204)</u>
<u><u>(623,697)</u></u>		<u><u>(575,538)</u></u>

12. Balance Sheet – usable reserves

31/03/13 £000		31/03/14 £000
1,517	Capital Receipts Reserve (a)	1,885
1,667	Renewal and Repair fund (b)	1,669
31,171	Capital fund (c)	31,703
2,394	Insurance fund (d)	2,409
37,890	General fund	40,340
<u>6,804</u>	Housing Revenue account	<u>7,328</u>
<u><u>81,443</u></u>		<u><u>85,334</u></u>

(a) The Capital Receipts Reserve represents capital receipts available to finance capital expenditure in future years.

(b) The Council operates a Renewal and Repair fund for the following purposes:

- to fund ground 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
- to fund repairs at leisure centres

(c) The Council operates a Capital fund to enable the financing of capital expenditure without recourse to borrowing. The fund can 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 County 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, environmental and road infrastructure improvements.

An earmarked balance exists within the Capital fund for a Landbanking initiative relating to the provision of affordable social housing throughout the Highlands.

(d) 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. This fund enables the Council to self insure General Fund properties against the risks of storm, flood, burst pipes and malicious damage.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

13. Balance Sheet – unusable reserves

31/03/13 £000		31/03/14 £000
366,359	Revaluation Reserve (a)	353,235
859,392	Capital Adjustment Account (b)	878,289
(35,097)	Financial Instruments Adjustment Account (c)	(33,075)
(329,521)	Pensions Reserves (d)	(392,349)
<u>(8,875)</u>	Employee Statutory Adjustment Account (e)	<u>(8,764)</u>
<u>852,258</u>		<u>797,336</u>

(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The reserve contains revaluation gains which have accumulated since the creation of the reserve on 1 April 2007. Accumulated gains arising up to 31 March 2007 were consolidated into the balance on the Capital Adjustment Account.

2012/13 (restated) £000		2013/14 £000
377,101	Balance at 1 April	366,359
	Adjustment to Opening Balance	<u>1,366</u>
	Restated Opening Balance	367,725
2,223	Upward revaluation of assets	1,336
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	<u>(10,397)</u>
<u>(9,100)</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(9,061)
(6,877)	Difference between fair value depreciation and historical cost depreciation	(4,967)
(2,596)	Accumulated gains on assets sold or scrapped	<u>(462)</u>
<u>(1,269)</u>	Amount written off to the Capital Adjustment Account	<u>(5,429)</u>
<u>(3,865)</u>		<u>(5,429)</u>
<u>366,359</u>	Balance at 31 March	<u>353,235</u>

(b) Capital Adjustment Account

The Capital Adjustment Account absorbs timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Account (with reconciling postings from the Revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on investment properties and also revaluation gains accumulated on property, plant and equipment prior to the creation of the account on 1 April 2007.

Note 5 provides details of the source of all the transactions posted to the account, apart from any involving the Revaluation Reserve.

2012/13 (restated) £000		2013/14 £000
826,866	Balance at 1 April 2013	859,392
-	Other Movements	<u>(1,366)</u>
826,866	Restated Opening Balance	858,026
(2,548)	Revenue Expenditure funded from capital under statute	(14,596)
-	Non enhancing capital expenditure	(933)
(43,758)	Charges for depreciation and impairment of non-current assets	(47,008)
(6,880)	Revaluation losses on Property, Plant and Equipment	(8,008)
(80)	Amortisation of Intangible Assets	(80)
(3,180)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	<u>(3,791)</u>
(56,446)		(74,416)
2,944	Adjusting amounts written out of the Revaluation Reserve	<u>5,429</u>
2,944	Net written out amount of the cost of non-current assets consumed in the year	5,429
	Capital Financing applied in the year	
3,348	Repayment of PPP creditors	3,468
2,672	Use of the Capital Receipts Reserve to finance new capital expenditure	3,207
40,594	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	39,547
-	Use of the Capital Fund	1,540
32,683	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	33,403
6,731	Capital expenditure charged against the General Fund and HRA balances	<u>8,085</u>
86,028		89,250
<u>859,392</u>	Balance at 31 March 2014	<u>878,289</u>

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(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2012/13 £000		2013/14 £000
(37,119)	Balance at 1 April 2013	(35,097)
1,952	Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,952
13	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	13
57	Proportion of equivalent interest rate calculation on soft loans	57
<u>(35,097)</u>	Balance at 31 March 2014	<u>(33,075)</u>

(d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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2012/13 £000		2013/14 £000	2013/14 £000
(289,466)	Balance at 1 April 2013		(329,521)
(57,612)	Actuarial losses arising on changes in financial assumptions	(55,467)	
78,654	Return on plan assets	21,422	
(39,131)	Other experience adjustments	(5,249)	
<u>(18,089)</u>	Total remeasurements of the net defined liability		<u>(39,294)</u>
(44,512)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(46,283)	
22,546	Employer's pension contributions and direct payments to pensioners payable in the year	22,749	
<u>(21,966)</u>			<u>(23,534)</u>
<u>(329,521)</u>	Balance at 31 March 2014		<u>(392,349)</u>

(e) Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

2012/13 £000		2013/14 £000
(10,587)	Balance at 1 April 2013	(8,875)
10,587	Settlement or cancellation of accrual made at the end of the preceding year	8,875
<u>(8,875)</u>	Amounts accrued at the end of the current year	<u>(8,764)</u>
<u>(8,875)</u>	Balance at 31 March 2014	<u>(8,764)</u>

14. Cash flow statement – Adjustments for non-cash movements

2012/13 (restated) £000		2013/14 £000
	Non-cash items	
53,267	Depreciation and impairments	54,248
328	Loss on sale of fixed assets	216
21,964	IAS 19 transactions	23,534
(522)	Financial instruments adjustments	13
	Items on accruals basis	
1,234	Decrease in inventories	19
7,119	Decrease in debtors	1,747
9,002	(Decrease)Increase in creditors	(15,333)
(3,285)	Decrease In provisions	(2,102)
<u>89,107</u>		<u>62,342</u>

15. Cash flow statement – operating activities

The net cash inflow from operating activities include the following items:

2012/13 £000		2013/14 £000
<u>(302)</u>	Interest received	<u>(150)</u>
<u>42,844</u>	Interest paid	<u>57,373</u>

16. Cash flow statement – investing activities

2012/13 £000		2013/14 £000
(114,791)	Purchase of property, plant and equipment	(115,919)
(5,109)	Other payments for investing activities	(2,949)
2,439	Proceeds from the sale of property, plant and equipment	3,942
(1,977)	Purchase of long and short-term investments	(26,087)
3,074	Other receipts from investing activities	6,550
<u>(116,364)</u>	Net cash flows from investing activities	<u>(134,463)</u>

17. Cash flow statement – financing activities

2012/13 £000		2013/14 £000
92,060	Cash receipts of short and long term borrowing	135,600
45,359	Other receipts from financing activities	22,677
(3,348)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(3,468)
(77,834)	Repayments of short and long term borrowing	(67,600)
-	Other payments for financing activities	(12,017)
<u>56,237</u>		<u>75,192</u>

18. Cash flow statement – cash and cash equivalents

	At 1 April 2013 £000	Cash flow £000	At 31 March 2014 £000
Temporary investments	70,682	(24,650)	46,032
Cash in hand	89	(20)	69
Cash at bank	(6,978)	2,386	(4,592)
Total cash and cash equivalents	<u>63,793</u>	<u>(22,284)</u>	<u>41,509</u>

19. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Account is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Resources Committee on the basis of monitoring reports analysed across the various services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the Comprehensive Income and Expenditure Account)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services

The income and expenditure of the Council's services recorded in the monitoring reports for the year is as follows:

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Service income and expenditure

2013/14	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
	£000	£000	£000	£000	£000	£000	£000	£000
Education, Culture and Sport	7,773	2,798	-	10,571	162,671	86,027	248,698	238,127
Housing (non HRA), Property and Architectural services	21,643	339	1	21,983	6,738	25,238	31,976	9,993
Building Maintenance	17,504	-	-	17,504	3,824	13,614	17,438	(66)
Planning and Development service	11,967	-	1	11,968	7,801	10,297	18,098	6,130
Health and Social Care	9,782	3,564	-	13,346	32,886	117,642	150,528	137,182
Transport, Environment and Community services	101,240	624	34	101,898	68,239	93,785	162,024	60,126
Chief executive's office	12,815	3	-	12,818	12,486	22,388	34,874	22,056
Finance services and Social Welfare Fund	7,093	-	-	7,093	17,541	2,407	19,948	12,855
Nairn Common Good Fund	-	-	-	-	-	390	390	390
Housing benefits	52,294	-	-	52,294	-	53,144	53,144	850
Non-Domestic rate relief	-	-	-	-	-	695	695	695
Loan charges	-	-	-	-	-	53,072	53,072	53,072
Interest and investment income	-	-	167	167	-	-	-	(167)
Joint board requisitions								
Northern Joint Police Board	-	-	-	-	-	2,100	2,100	2,100
Highland and Islands Fire Board	-	-	-	-	-	33	33	33
Highland and Western Isles Valuation Joint Board	-	-	-	-	-	2,345	2,345	2,345
Highland and Islands Transport Partnership	-	-	-	-	-	89	89	89
	242,111	7,328	203	249,642	312,186	483,266	795,452	545,810

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Service income and expenditure

2012/13	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
	£000	£000	£000	£000	£000	£000	£000	£000
Education, Culture and Sport	8,041	3,148	-	11,189	160,209	86,635	246,844	235,655
Housing (non HRA), Property and Architectural services	19,651	531	2	20,184	6,589	24,936	31,525	11,341
Building Maintenance	17,475	-	-	17,475	3,441	14,114	17,555	80
Planning and Development service	9,605	-	1	9,606	7,527	9,859	17,386	7,780
Health and Social Care	27,220	4,839	-	32,059	51,482	115,504	166,986	134,927
Transport, Environment and Community services	101,129	381	38	101,548	57,343	108,993	166,336	64,788
Chief executive's office	13,441	131	-	13,572	12,393	25,503	37,896	24,324
Finance services	7,403	-	-	7,403	16,766	2,664	19,430	12,027
Housing benefits	53,135	-	-	53,135	-	53,302	53,302	167
Non-Domestic rate relief	-	-	-	-	-	687	687	687
Loan charges	-	-	-	-	-	52,099	52,099	52,099
Interest and investment income	-	-	264	264	-	-	-	(264)
Joint board requisitions								
Northern Joint Police Board	-	728	-	728	-	16,375	16,375	15,647
Highland and Islands Fire Board	-	-	-	-	-	15,614	15,614	15,614
Highland and Western Isles Valuation Joint Board	-	-	-	-	-	2,379	2,379	2,379
Highland and Islands Transport Partnership	-	-	-	-	-	89	89	89
	257,100	9,758	305	267,163	315,750	528,753	844,503	577,340

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement

2012/13 £000		2013/14 £000
577,340	Net expenditure in the service analysis	545,810
(5,635)	Net expenditure of services not included in the analysis	(3,892)
40,262	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	50,088
(64,531)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(72,333)
<u>547,436</u>	Cost of services in Comprehensive Income and Expenditure Statement	<u>519,673</u>

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement

2013/14	Service analysis £000	Services and support services not in analysis £000	Amounts not reported to management £000	Non statutory charges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	242,111	46,699	-	-	288,810		288,810
Interest and investment income	203	-	-	-	203	443	646
Income from council tax	-	-	-	-	-	99,951	99,951
Government grants and contributions	7,328	-	15,882	-	23,210	475,588	498,798
Total Income	249,642	46,699	15,882	-	312,223	575,982	888,205
Employee expenses	312,186	5,073	8,013	-	325,272	14,692	339,964
Other service expenses	483,266	23,541	1,583	(19,261)	489,129	(88)	489,041
Depreciation, amortisation and impairment	-	14,193	56,431	-	70,624	-	70,624
Interest payments	-	-	(57)	(53,072)	(53,129)	44,164	(8,965)
(Gain)/loss on disposal of non-current assets	-	-	-	-	-	216	216
Total expenditure	795,452	42,807	65,970	(72,333)	831,896	58,984	890,880
(Surplus)/deficit on the provision of services	545,810	(3,892)	50,088	(72,333)	519,673	(516,998)	2,675

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Comparative Figures 2012/13	Service analysis £000	Services and support services not in analysis £000	Amounts not reported to management £000	Non statutory charges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	198,666	45,283	-	-	243,949	-	243,949
Interest and investment income	306	-	-	-	306	550	856
Income from council tax	-	-	-	-	-	110,716	110,716
Government grants and contributions	68,191	-	-	687	68,878	512,915	581,793
Total Income	267,163	45,283	-	687	313,133	624,181	937,314
Employee expenses	327,444	5,389	2,211	-	335,044	15,299	350,343
Other service expenses	517,059	21,407	(2,306)	(11,745)	524,415	-	524,415
Depreciation, amortisation and impairment	-	12,852	40,414	-	53,266	-	53,266
Interest payments	-	-	(57)	(52,099)	(52,156)	43,064	(9,092)
Loss on disposal of non-current assets	-	-	-	-	-	262	262
Total expenditure	844,503	39,648	40,262	(63,844)	860,569	58,625	919,194
(Surplus)/deficit on the provision of services	577,340	(5,635)	40,262	(64,531)	547,436	(565,556)	(18,120)

20. Trading operations

The 'Trading Operations Review Group' was established by the Scottish Government in 2008 to consider the implementation of the Local Government in Scotland Act 2003, particularly in respect of the requirements relating to 'Significant Trading Operations' and the requirement to achieve Best Value. The Group agreed that any statutory control over trading operations should only be applied to external trading situations. In light of the recommendation, the Council reviewed its trading operations, consequently reducing the number from 6 to 1. The Council now has 1 trading operation which operates in a commercial environment. In accordance with the local Government (Scotland) Act 2003 the significant trading operation is required to break even over a rolling three year period.

Details of significant trading operation**Fishery, Piers and Harbours**

The Harbour organisation trades 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 to break even after depreciation.

Summary of Financial Results

A summary of the financial results of the trading operation for 2013/14 is as follows:

Fishery, Piers and Harbours	£000
Turnover	16,460
Expenditure	<u>(16,367)</u>
Surplus	93
Less internal surplus included in service net expenditure	(2)
Less interest on revenue balances	(3)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 10)	<u>88</u>
Three year surplus	
Financial Year	£000
2011/12	460
2012/13	222
2013/14	<u>88</u>
	<u>770</u>

The Local Government in Scotland Act 2003 requires each Significant Trading Organisation (STO) to break even over a rolling three year period. The table above is presented exclusively to show whether the STO met this target.

21. Agency Services

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2013/14 the Council paid over £29.789m and received £0.597m for providing this service. During 2012/13 the Council paid over £29.617m and received £0.638m for providing this service.

22. External audit costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts

2012/13 £000		2013/14 £000
440	Fees payable to Audit Scotland with regard to external audit services	444
<u>(27)</u>	Rebate on prior year audit fee	<u>-</u>
<u>413</u>		<u>444</u>

No fees were payable to Audit Scotland in respect of any other services in either year.

23. Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by The Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The Scheme provides eligible employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Teachers' and NHS Schemes are technically defined benefit schemes. However, the Schemes are unfunded and The Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14 the Council paid £13.846m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2012/13 were £13.801m and 14.9%. There were no contributions remaining payable at the year-end.

In 2013/14 the Council paid £0.288m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 13.5% of pensionable pay. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' and NHS schemes. These costs are accounted for on a defined benefit basis and are included in the information presented in note 24.

24. Defined benefit pension schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The authority has two post employment arrangements:

- The Local Government Pension Scheme, administered locally by The Highland Council Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due

Transactions relating to post employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Prior year figures

The 2012/13 Comprehensive Income and Expenditure Statement entries have been restated due to the amended requirements of IAS19 Employee Benefits.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

2012/13 (restated) £000		2013/14 £000
Comprehensive Income and Expenditure Statement		
Cost of services		
27,584	Current service cost	31,536
<u>1,629</u>	Past service cost (including curtailments)	<u>55</u>
29,213		31,591
15,299	Financing and investment income and expenditure Net interest expense	14,692
44,512	Total post employment benefits charged to the surplus or deficit on the provision of services	46,283
	Other post employment benefits charged to the comprehensive income and expenditure statement	
	Remeasurement of the net defined benefit liability comprising:	
(78,654)	Return on plan assets (excluding the amount included in the net interest expense)	(21,422)
57,612	Actuarial losses arising on changes in financial assumptions	55,467
39,131	Experience adjustments	5,249
<u>62,601</u>	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	<u>85,577</u>
Movement in reserves statement		
<u>(44,512)</u>	Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	<u>(46,283)</u>
Actual amount charged against the General Fund balance for pensions in the year		
<u><u>22,546</u></u>	Employers contributions payable to the scheme	<u><u>22,749</u></u>
Pension assets and liabilities Recognised in the Balance Sheet		
31/3/13 £000		31/3/14 £000
(1,135,268)	Present value of the defined benefit obligation	(1,253,013)
805,747	Fair value of pension fund assets	860,664
<u>(329,521)</u>	Net liability arising from defined benefit obligation	<u>(392,349)</u>

Information about the defined benefit obligation

	£000	Liability split Percentage (%)	Duration
Active members	620,358	51.6%	20.0
Deferred members	158,167	13.1%	17.7
Pensioner members	424,570	35.3%	8.7
Total	<u>1,203,095</u>	<u>100.0%</u>	15.7

Reconciliation of the movements in the fair value of scheme assets

31/03/13 (restated) £000		31/03/14 £000
701,340	Opening fair value of scheme assets	805,747
30,847	Interest income	35,411
78,654	Return on plan assets	21,422
22,546	Contributions by employer	22,749
6,322	Contributions by Scheme participants	6,569
(33,962)	Estimated benefits paid (net of transfers in)	(31,234)
<u>805,747</u>	Closing fair value of scheme assets	<u>860,664</u>

Reconciliation of present value of scheme liabilities (defined benefit obligation)

31/03/13 (restated) £000		31/03/14 £000
(990,806)	Opening defined benefit obligation	(1,135,268)
(27,584)	Current service cost	(31,536)
(46,146)	Interest cost	(50,103)
(6,322)	Contributions by scheme participants	(6,569)
	Remeasurement (gains) and losses:	
(57,612)	Actuarial losses from changes in financial assumptions	(55,467)
(39,131)	Experience adjustments	(5,249)
30,746	Estimated benefits paid (net of transfers in)	28,534
3,216	Unfunded pension payments	2,700
(851)	Past service cost	(55)
(778)	Losses on curtailments	-
<u>(1,135,268)</u>	Closing value	<u>(1,253,013)</u>

Analysis of Pension Fund's Assets

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

2012/13		2013/14
2%	Cash and cash equivalents	2%
	Equity Securities:	
	By industry type	
12%	Consumer	11%
8%	Manufacturing	8%
6%	Energy and utilities	6%
9%	Financial institutions	10%
3%	Health and care	3%
7%	Information technology	7%
2%	Other	2%
	Debt Securities:	
	By sector	
13%	Corporate	12%
7%	Government	7%
1%	Private Equity	2%
	Property:	
7%	UK	7%
1%	Overseas	1%
	Other Investment Funds:	
<u>22%</u>	Equity	<u>22%</u>
<u>100%</u>	Total	<u>100%</u>

Note:

The risks relating to assets in the scheme are analysed below:

31 March 2013 £000	Fair value of pension fund assets	31 March 2014 £000
734,826	Equity Instruments Quoted in an active market	778,107
<u>70,921</u>	Not quoted in an active market	<u>82,557</u>
<u>805,747</u>	Total equity instruments	<u>860,664</u>

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 1 April 2011. Hymans Robertson LLP were appointed from 1 April 2013, replacing Barnett Waddingham as the Fund's appointed actuaries.

The significant assumptions used by the actuary have been:

	2013/14	2012/13
Long term expected return on assets in the Fund:		
• Equity investments	6.7%	6.4%
• Bonds	4.0%	3.6%
• Property	4.8%	4.4%
• Cash	3.7%	0.5%
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	21.3	21.3
• Women	23.6	23.6
Longevity at 65 for future pensioners (years)		
• Men	22.6	22.6
• Women	25.1	25.1
Rate of inflation	2.80%	2.60%
Rate of increase in salaries	4.90%	4.80%
Rate of increase in pensions	2.60%	2.60%
Rate for discounting fund liabilities	4.10%	4.40%
Take up option to convert annual pension into retirement lump sum	50.00%	50.00%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption changes while all the other assumptions remain constant. The methods and types of assumption used in preparing the sensitivity analysis below did not change from this used in the previous period.

	Impact on the Defined Benefit Obligation in the Fund	
	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
Member life expectancy (increase or decrease in 1 year)	3%	37,590
Rate of increase in salaries (increase or decrease by 0.5%)	3%	37,491
Rate of increase in pensions (increase or decrease by 0.5%)	7%	84,688
Rate for discounting fund liabilities (increase or decrease by 0.5%)	10%	124,084

Asset and Liability Matching Strategy

The Highland Council Pension fund has an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing.

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas and some Private Equity. However, the portfolio has also invested in Index-Linked Gilts, Property, UK Bonds, Overseas Bonds, Private Equity and Cash. This diverse range of investments is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

With 75% of the Fund's investments in active management and 25% in index tracking (passive), it is intended that an efficient balance is met between risk and return in light of liability profile and the funding level.

Impact on the Authority's Cash Flow

The aims of the fund are to:

- Ensure that sufficient resources are available to meet all liabilities as they fall due
- Enable employer contributions to be kept as nearly constant as possible and at reasonable cost to the taxpayers and employers
- Manage employers liabilities effectively
- Maximise the returns from investments within reasonable risk parameters

The employer's contributions are set by the Fund actuary at each triennial actuarial valuation (the most recent being as at 31 March 2011), or at any other time as instructed to do so by the Council. The next triennial valuation is due to be completed as at 31 March 2014. The actuaries have estimated that contributions for the year to 31 March 2015 will be approximately £19.638m.

25. Local Government Pension Scheme

Highland Council is the administering authority for The Highland Council Pension Fund which provides pensions for those employees of The Highland 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 being the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme Amendment (Scotland) Regulations 2010.

The Fund is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008, the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008. It is contracted out of the State Second Pension.

The actuaries have advised that there are risks and uncertainties associated with the use of assumptions. IAS 19 requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As a result, the figures illustrated above are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Council's obligations to the

Fund. Also, the balance sheet position may change significantly due to relative changes in the equity and bond markets at the reporting date.

The main risk to the employer is that it determines assumptions that are more prudent (for example a lower net discount rate, higher longevity) than its peers, leading to a relatively poorer reported financial position. The Council has considered the requirement for a best estimate set of assumptions and a commercial need not to overstate the pension liabilities.

As the administering authority, Highland Council is required to publish a pension fund annual report including a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices. The pension fund annual report is available at www.highland.gov.uk or from Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

26. 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. council tax bills, housing benefits).

An analysis of significant government grants received during the year is set out in note 42.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in the remuneration report.

Other public bodies (subject to common control by central government)

Valuation Joint Board and Highland and Islands Transport Partnership

Highland Council is a constituent authority of the Highland and Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership. The net expenditure shown in the Comprehensive Income and Expenditure Statement represents the Council's requisition or proportion of the costs of these organisations.

The Joint Board and Transport Partnership are deemed to be associates of The Highland Council, and are included on this basis in the Group Accounts.

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

Police and Fire Joint Boards

Until 31 March 2013, Highland Council was a constituent authority of the Northern Joint Police Board and the Highland and Islands Fire Board. The net expenditure shown in the Comprehensive Income and Expenditure Account in 2013/14 represents the settlement of all balances due on closing off the financial records of these boards on transfer to the new single services as at 1 April 2013.

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.

The Council charged the Pension Fund £1.004m (2012/13 £0.790m) for expenses incurred in administering the Pension Fund in the year.

NHS Highland

From 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. Under the partnership agreement effective from that date, Highland Council is the lead agency for the delivery of integrated children's services and NHS Highland lead agency for integrated adult services. In 2013-14 Highland Council paid NHS Highland £87.489m for the provision of integrated adult services and NHS Highland made payment of £8.483m to Highland Council in respect of integrated children's services.

Entities controlled or significantly influenced by the Council

During the year Highland Council had two subsidiary companies as detailed below. Copies of the Accounts, all of which give an unqualified audit opinion, can be obtained from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

High Life Highland

High Life Highland (HLH) is a charitable company limited by guarantee which was incorporated along with its wholly owned subsidiary High Life Highland (Trading) CIC on 1 October 2011 to deliver community learning and leisure services on behalf of The Highland Council. The Highland Council is the sole member of the company.

The results of High Life Highland have been consolidated in the group accounts.

The following related companies have not been consolidated in the Group Accounts as they are considered immaterial

Highland Opportunity Limited (HOL)

HOL provides financial assistance and advice to businesses to protect and expand employment. It is a company limited by guarantee with the liability of the Council limited to £100.

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

Financial Year End	Net Assets £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
31 March 2013	1,120	(172)	(172)
31 March 2012	1,209	(201)	(201)

HOL holds 100% of the issued ordinary share capital in the following companies.

Company	Nature of business
Highland Opportunity (Communities) Limited	Community projects
Highland Opportunity (EBS) Limited	European Information Centre
Highland Opportunity (Investments) Limited	Investment
Ness Horizons Ltd	Provision of office services

The latest available audited results of these companies are as follows:

	Net assets (Liabilities)	Profit/(loss) before taxation	Profit/(loss) after taxation
	£000	£000	£000
Year ended 31 March 2013			
Highland Opportunity (Communities) Limited	354	3	3
Highland Opportunity (EBS) Limited	146	6	6
Highland Opportunity (Investments) Limited	2,192	25	22
Ness Horizons Ltd	(25)	-	(1)
Year ended 31 March 2012			
Highland Opportunity (Communities) Limited	351	(2)	(2)
Highland Opportunity (EBS) Limited	140	48	48
Highland Opportunity (Investments) Limited	2,170	25	22
Ness Horizons Ltd	(24)	18	22

Pathfinder North

The Highland Council was the Lead Authority in the Pathfinder North 1 partnership with Argyll and Bute, Moray, Orkney and Shetland Islands Councils which secured advanced broadband services through aggregated procurement until March 2014.

As the Pathfinder North 1 contract was coming to an end, the Scottish Government was introducing the Scottish Wide Area Network (SWAN) under which all organisations within the Scottish Public Sector could draw down Broadband Services from one service provider. The advantages of utilising SWAN include obtaining consistency across the public sector and achieving better Value for Money from the economies of scale provided by such a contract. To cover the time between the original Pathfinder North 1 contract ending in March 2014 and the services under SWAN becoming available in March 2016 the Pathfinder North partnership successfully negotiated a two year extension to the original contract with Vodafone. Shetland Islands Council decided against participating in the two year contract extension and made alternative arrangements for service delivery. The remaining four Council Partnership now operates under the original Minute of Agreement as adjusted by an Addendum during this two year extension.

The £62m Scottish Government grant provided to fund the costs of Pathfinder North 1 has been fully utilised and no successor funding is available to meet future service delivery costs. Consequently in relation to the contract extension all four Councils included funding within their budgets to meet the costs of the contract extension.

To procure future services under SWAN, a new Pathfinder North 2 Partnership (PFN2) has been formed excluding Shetland Islands Council but including the Comhairle nan Eilean Siar. The PFN2 Partnership is currently undertaking a review of their requirements in anticipation of the gradual migration of sites from Vodafone to SWAN scheduled to take place between March 2016 and September 2016.

27. Operating Leases

Highland Council as Lessor

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services such as sports facilities
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

31/03/13 £000		31/03/14 £000
2,069	Not later than one year	2,141
6,790	Later than one year and not later than five years	7,139
<u>66,068</u>	Later than five years	<u>78,507</u>
<u>74,927</u>		<u>87,787</u>

Highland Council as Lessee

The future minimum lease payments due under non-cancellable leases in future years are:

31/03/13 £000		31/03/14 £000
4,861	Not later than one year	4,634
8,368	Later than one year and not later than five years	5,419
<u>5,552</u>	Later than five years	<u>5,622</u>
<u>18,781</u>		<u>15,675</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was

31/03/13 £000		31/03/14 £000
<u>5,984</u>	Minimum lease payments	<u>5,241</u>

With effect from 1 April 2014 the Council has entered into a lease agreement with the NHS for Care Homes, Day Centres and Offices.

28. Property, plant and equipment

Movements in 2013/14

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2013	726,142	998,866	78,725	359,659	2,127	7,016	26,545	2,199,080	166,215
Other movements	(1)	(3)	(1)	-	-	11	-	6	-
Restated Opening Balance	726,141	998,863	78,724	359,659	2,127	7,027	26,545	2,199,086	166,215
Additions	42,189	30,651	10,723	23,503	148	2,829	8,112	118,155	18
Revaluation increases/(decreases) recognised in the surplus/deficit of services	(862)	(7,672)	-	-	(40)	-	-	(8,574)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(7,830)	(2,042)	-	-	-	-	-	(9,872)	-
Derecognition - disposals	(2,025)	(404)	(74)	-	-	(569)	-	(3,072)	-
Assets reclassified (to)/from Held for Sale	-	175	-	-	-	-	-	175	-
Reclassifications	-	22,431	-	-	-	1,352	(23,783)	-	-
At 31 March 2014	757,613	1,042,002	89,373	383,162	2,235	10,639	10,874	2,295,898	166,233

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2013	35,437	50,990	29,336	50,552	-	118	-	166,433	10,577
Other movements in depreciation and impairment	-	(4)	1	-	-	10	-	7	-
Restated Opening Balance	35,437	50,986	29,337	50,552	-	128	-	166,440	10,577
Depreciation charge	13,040	14,688	8,575	10,643	-	62	-	47,008	2,644
Depreciation written out to the revaluation reserve	-	(812)	-	-	-	-	-	(812)	-
Depreciation written out to the surplus/deficit on provision of services	-	(610)	-	-	-	-	-	(610)	-
Derecognition - disposals	-	(23)	(43)	-	-	(33)	-	(99)	-
Reclassifications	-	(92)	-	-	-	92	-	-	-
Assets reclassified (to)/from Held for Sale	-	3	-	-	-	-	-	3	-
At 31 March 2014	48,477	64,140	37,869	61,195	-	249	-	211,930	13,221
Net book value									
At 31 March 2014	709,136	977,862	51,504	321,967	2,235	10,390	10,874	2,083,968	153,012
At 31 March 2013	690,705	947,876	49,389	309,107	2,127	6,898	26,545	2,032,647	155,638

Comparative movements in 2012/13

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2012	706,315	972,688	67,225	332,547	1,722	6,777	26,540	2,113,814	166,155
Additions	32,631	21,523	11,503	27,112	374	406	11,390	104,939	60
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(1,029)	(5,979)	-	-	-	(274)	-	(7,282)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(9,099)	(340)	-	-	31	15	-	(9,393)	-
Derecognition - disposals	(2,676)	-	(3)	-	-	(35)	-	(2,714)	-
Derecognition – other	-	-	-	-	-	127	(1)	126	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	(410)	(410)	-
Reclassifications	-	10,974	-	-	-	-	(10,974)	-	-
Other movements	-	-	-	-	-	-	-	-	-
At 31 March 2013	726,142	998,866	78,725	359,659	2,127	7,016	26,545	2,199,080	166,215

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2012	23,119	38,297	21,819	40,584	-	121	-	123,940	7,932
Depreciation charge	12,318	13,940	7,518	9,968	-	13	-	43,757	2,645
Depreciation written out to the revaluation reserve	-	(843)	-	-	-	(1)	-	(844)	-
Depreciation written out to the surplus/deficit on provision of services	-	(390)	-	-	-	(12)	-	(402)	-
Derecognition - disposals	-	-	(1)	-	-	(3)	-	(4)	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(14)	-	-	-	-	-	(14)	-
At 31 March 2013	<u>35,437</u>	<u>50,990</u>	<u>29,336</u>	<u>50,552</u>	<u>-</u>	<u>118</u>	<u>-</u>	<u>166,433</u>	<u>10,577</u>
Net book value									
At 31 March 2013	<u>690,705</u>	<u>947,876</u>	<u>49,389</u>	<u>309,107</u>	<u>2,127</u>	<u>6,898</u>	<u>26,545</u>	<u>2,032,647</u>	<u>155,638</u>
At 31 March 2012	<u>683,196</u>	<u>934,391</u>	<u>45,406</u>	<u>291,963</u>	<u>1,722</u>	<u>6,656</u>	<u>26,540</u>	<u>1,989,874</u>	<u>158,223</u>

29. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2014, for the acquisition of property, plant and equipment, was £197.080m (31 March 2013 £82.644m). Details of the major commitments by contract or project are as follows:

Contract or Project	2013/14 £m
HRA Housing – Council House New Builds	21.275
Fort William New Primary Schools	31.360
River Ness Flood Alleviation Scheme	19.258
Miscellaneous projects with an individual commitment less than £0.5m	8.460
Lochaber High - Phase 3	4.117
HRA Housing – Sutherland Solid Fuel to Biomass Heating	3.550
Reconstruction of Market Square offices in Wick	3.079
Biomass and Heating Replacements to Schools – Highland wide	2.438
HRA Housing – Sutherland Electric to Biomass Heating	2.300
HRA Housing – Milnafua Replacement Gas Heating	2.165
HRA Housing – Badenoch/Lochaber/Inverness/Nairn Electric Heating	2.062
Estate Strategy – Lifecycle Investment	1.900
HRA Housing – Ross-shire Gas Heating	1.300
HRA Housing – Badenoch/Lochaber/Inverness Heating	1.216
HRA Housing – Inverness and Nairn Installation of Gas Heating	1.184
Doorways Initiative – Central Primary	0.960
HRA Housing – South Area Kitchen Replacements	0.869
ICT Rolling Refresh	0.817
A890 Strathcarron Junction to Balnacra	0.800
HRA Housing – South Area Bathrooms Refurbishment	0.795
Wick Town Hall – Access Works	0.753
Smithton/Culloden Flood Alleviation Scheme	0.636
HRA Housing – Wester Ross and Skye Bathroom Refurbishment	0.613
HRA Housing – Glendoe Terrace, Inverness – Phase 3	0.610
HRA Housing – North Area Bathroom Refurbishment	0.583
HRA Housing – Inverness Electric to Gas Heating	0.570
HRA Housing – Inverness Gas Warm Air Unit Replacements	0.510
	<u>114.180</u>

30. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

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2012/13 (restated) £000		2013/14 £000
790,712	Opening capital financing requirement	809,668
	Capital investment	
104,941	Property, Plant and Equipment	118,155
-	- Asset Decommissioning Costs	2,250
-	- Revenue Expenditure funded from capital under statute	14,595
	Sources of finance	
(2,672)	Capital receipts	(3,575)
-	- Capital Fund	(1,540)
(40,529)	Government grants and other contributions	(39,547)
	Sums set aside from revenue	
(6,732)	- direct revenue contributions	(8,085)
(32,683)	- loans fund principal	(33,403)
(21)	House loans	(11)
(3,348)	Reduction in Finance Lease Creditors (PPP)	(3,468)
<u>809,668</u>	Closing capital financing requirement	<u>855,039</u>
	Explanation of movements in the year	
18,935	Increase in underlying need to borrow (supported by government financial assistance)	45,360
21	Increase in underlying need to borrow (unsupported by government financial assistance)	11
<u>18,956</u>	Increase/(decrease) in capital financing requirement	<u>45,371</u>

31. Private finance initiatives and similar contracts

Fujitsu Services Ltd

The Council signed a contract with Fujitsu Services Ltd for the provision of ICT services. The contract is for a five year period from 1 April 2010 with an option to extend for a further two years. The total estimated charges over the 5 years, after efficiency savings, amount to £63.7m. During 2013/14 the Council signed a service continuation agreement under which certain ICT services will continue to be provided by Fujitsu until October 2016.

Community Schools (Highlands) Ltd

The Council signed a PPP 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 2013/14 was £3.592m (2012/13 £3.521m). 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.

The total amount payable under the contract from April 2014 until July 2027 amounts to £44.9m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £19.06m over the remaining term of the contract.

Alpha Schools (Highland) Ltd

The Council signed a 30 year PPP contract with Alpha Schools (Highland) Ltd on 30 March 2006 for the provision of 11 schools. After a phased introduction, all the school buildings are now available to the Council. The annual unitary charge for this contract in 2013/14 was £19.952m (2012/13 £19.642m). This charge covers the cost of the use of the schools plus an amount relating to the transfer of the assets to the Council at the end of the contract.

The total amount of unitary charge payable by the Council over the remaining term of the contract term is estimated to be £465.0m (estimated cash prices). The Council receives Revenue Support of £7.16m per annum from the Scottish Government towards these costs. This support is estimated to amount to £164.7m over the remaining term of the contract.

Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in note 28.

Liabilities arising from PFI and similar contracts

2012/13 £000		2013/14 £000
(136,314)	As at 1 April 2013	(132,966)
3,348	Repaid in year	3,468
<u>(132,966)</u>	As at 31 March 2014	<u>(129,498)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2014 (excluding any estimation of inflation and availability/performance deductions) are as follows

Payments due	Repayment of liability £000	Interest and service charges £000	Total £000
within one year	3,575	19,639	23,214
within 2 to 5 years	15,605	80,106	95,711
within 6 to 10 years	24,836	101,492	126,328
within 11 to 15 years	29,521	97,751	127,272
within 16 to 20 years	31,310	89,542	120,852
within 21 to 25 years	24,651	51,396	76,047
	<u>129,498</u>	<u>439,926</u>	<u>569,424</u>

32. Intangible Assets

31/03/13 £000			31/03/14 £000	
		Cost or valuation		
400		As at 31 March 2013	400	
-		Revaluations	-	
<u>400</u>		As at 31 March 2014	<u>400</u>	
		Cumulative depreciation		
160		As at 31 March 2013	240	
80		Charge for year	80	
<u>240</u>		As at 31 March 2014	<u>320</u>	
		Net book value		
<u>160</u>		As at 31 March 2014	<u>80</u>	
<u>240</u>		As at 31 March 2013	<u>160</u>	

33. Assets held for sale

2012/13 £000			2013/14 £000	
2,181		As at 1 April 2013	2,023	
396		Reclassifications	(172)	
30		Revaluation increases/(decreases) recognised in the revaluation reserve	-	
(161)		Revaluation increases/(decreases) recognised in the surplus/(deficit) on the provision of services	(44)	
(423)		Assets sold	(818)	
-		Impairment losses	-	
<u>2,023</u>		As at 31 March 2014	<u>989</u>	

34. Long term investments

31/03/13			31/03/14	
Cost £000	Carrying Amount £000		Cost £000	Carrying Amount £000
<u>1,175</u>	<u>1,003</u>	Inverness Airport Business Park Ltd	<u>1,175</u>	<u>1,061</u>

35. Inventories

31/03/13 £000			31/03/14 £000	
<u>5,570</u>		Raw materials and consumables	<u>5,551</u>	

36. Long term debtors

31/03/13 £000		31/03/14 £000
16,545	Police Scotland	15,881
9,265	Scottish Fire and Rescue Service	8,410
10,507	Landbanking fund advances	9,853
5,100	National Housing Trust	6,937
147	House Loans	136
35	Car Loans	12
829	Other loans	85
5,336	Caithness Heat and Power Ltd	5,336
<u>(5,336)</u>	Caithness Heat and Power Ltd Impairment	<u>(5,336)</u>
<u>42,428</u>	Long term debtors (net of impairment)	<u>41,314</u>

37. Short term debtors

31/03/13 £000		31/03/14 £000
13,345	Central government bodies	18,933
7,193	Other local authorities	622
2,663	NHS bodies	2,771
1,803	Public corporations	56
<u>65,958</u>	Other entities and individuals	<u>70,089</u>
90,962		92,471
(39,340)	Provision for impairment	(40,710)
<u>51,622</u>	Total (net of impairment)	<u>51,761</u>

38. Short term creditors

31/03/13 £000		31/03/14 £000
31,113	Central government bodies	7,446
9	Other local authorities	3,924
1,262	NHS bodies	22,788
11	Public corporations	51
6,822	Finance lease creditors	7,417
<u>64,359</u>	Other entities and individuals	<u>59,290</u>
<u>103,576</u>	Total	<u>100,916</u>

39. Provisions

	Note	At 1/04/13	Increase in provision	Use of provision	Unused amounts reversed during the year	At 31/03/14
		£000	£000	£000	£000	£000
Short term						
Equal Pay	1	564	-	-	-	564
Insurance	2	512	585	(437)	-	660
		<u>1,076</u>	<u>585</u>	<u>(437)</u>	<u>-</u>	<u>1,224</u>
Long term						
Landfill sites	3	<u>2,250</u>	<u>-</u>	<u>-</u>	<u>(2,250)</u>	<u>-</u>

- (1) Provision made to meet anticipated costs of outstanding equal pay and single status claims, appeals against job evaluation outcomes and other related liabilities
- (2) Provision made for outstanding insurance claims
- (3) Provision made for restoration costs in relation to landfill sites

40. Long Term Liabilities

31/03/13		31/03/14
£000		£000
329,521	Pension Liability	392,349
126,143	Finance lease creditors	122,081
-	Other long term creditors	2,150
<u>455,664</u>		<u>516,580</u>

41. Contingent liabilities**Mallaig Harbour Authority**

The Council has guaranteed a 25 year loan from the Public Works Loan Board 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 2014 is £0.269m (31 March 2013 £0.290m).

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 Harbour 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 Revenue & Customs 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 £0.020m.

Equal Pay and Job Evaluation

In common with other Scottish Local Authorities, the Council has made arrangements to modernise employment conditions for staff by implementing a new pay structure; effective from 1 April 2008 and harmonised conditions of service which were implemented from 1 September 2010.

There are approximately 2,800 equal pay claims relating to the 'post implementation' period from 1 April 2008 onwards. A contingent liability is recognised for these claims. The Council believes it has a strong defence against these claims. The lead case will be heard by tribunal at a future date to be determined.

Caithness Heat and Power Ltd

CHaP was a company limited by guarantee with the Highland Council as sole member. The principal activity of the company was to conduct preparatory work in order to procure and deliver energy efficient heating supplies for onward sale to install energy efficient heating systems.

Following the Council's decision that CHaP would cease trading on 23 December 2011 the company was struck off by the Registrar of Companies and no longer exists.

Following the striking off of the company, the main risk remaining with the Council is that Ignis, the succeeding provider, discontinue the supply of energy to Council houses currently on their heating system. In such a situation the Council will require to re-instate alternative heating systems in these Council houses. Although the risk is considered to be small it still remains as a Contingent Liability.

Provision for the non-repayment of the Council's loan to ChaP and associated interest due was made in full in prior years.

Holiday pay

As a result of recent Case Law relating to a European Directive, Local Authorities expect to have to amend their traditional calculation of holiday pay. COSLA are drafting new guidance on the method of calculation and therefore The Council may have a potential liability dependent on the introduction and time frame of any new guidance.

Building dilapidations

The Council leases a number of buildings which will require to be returned to their original leased condition at the end of the lease. Every attempt is made to maintain leased buildings in reasonable order. However the Council has a potential liability to incur re-instatement costs where the condition has deteriorated below that of the original state

42. Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14

2012/13 £000		2013/14 £000
	Credited to Taxation and non-specific grant income	
364,996	Revenue support grant	336,229
106,717	Non-Domestic rates	114,154
<u>40,594</u>	Capital grants and contributions	<u>25,205</u>
512,307		475,588
	Credited to Council Tax Income	
13,288	Council Tax benefit subsidy	-
	Credited to services	
4,764	Capital grants and contributions	14,552
	Department of Works and Pensions	
53,055	Housing benefits	51,187
	General Fund Housing	
531	Universal Home Insulation	130
	Education, Culture and Sport	
965	Gaelic	940
1,026	EMA Co-ordination	1,055
230	Activity agreement pilots	145
	Health and Social Care	
3,233	Criminal Justice Grant	3,217
139	Family Nurse Partnership	287
<u>60</u>	European Childcare Staff Qualifications	<u>77</u>
<u>589,598</u>	Total	<u>547,178</u>

43. Financial instrument balances

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet

31/03/13			31/03/14	
Long term £000	Current £000		Long term £000	Current £000
Investments				
1,003	-	Loans and receivables	1,061	-
<u>1,003</u>	-	Total investments	<u>1,061</u>	-
Debtors				
42,428	60,078	Loans and receivables	41,314	49,136
-	5,005	Financial assets carried at contract amounts	-	31,902
<u>42,428</u>	<u>65,083</u>	Total included in Debtors	<u>41,314</u>	<u>81,038</u>
-	63,793	Cash and Cash equivalents	-	41,509
Borrowing				
652,179	55,805	Financial liabilities at amortised cost	694,565	56,316
<u>652,179</u>	<u>55,805</u>	Total Borrowing	<u>694,565</u>	<u>56,316</u>
Other long term liabilities				
126,143	-	PFI and finance lease liabilities	122,081	-
319,943	-	Other long term liabilities	394,499	-
<u>446,086</u>	-	Total other long term liabilities	<u>516,580</u>	-
Creditors				
-	103,576	Financial liabilities at contract amount	-	100,916
-	<u>103,576</u>	Total creditors	-	<u>100,916</u>

Material soft loans made by the Council**Landbank fund loans**

The Council operates a fund to account for transactions relating to the Affordable Social Housing (Landbanking) initiative. Interest free loans are made from the fund to various housing associations and bodies and these are deemed to be material soft loans.

2012/13 £000			2013/14 £000
10,003	Balance at 1 April 2013		10,507
801	Nominal value of new loans made in the year		1,112
(434)	Loans repaid in the year		(1,683)
(19)	Loans written off in the year		(34)
156	Fair value adjustment re interest uncharged in year		(50)
<u>10,507</u>	Balance at 31 March 2014		<u>9,852</u>

Loans to Inverness Airport Business Park

The loan to Inverness Airport Business Park Ltd to develop a mixed use business park

2012/13 £000		2013/14 £000
946	Balance at 1 April 2013	1,003
57	Fair value adjustment re interest uncharged in year	58
<u>1,003</u>	Balance at 31 March 2014	<u>1,061</u>

Valuation assumptions

The interest rate at which the fair value of soft loans has been calculated is 4.87%

44. Financial instrument gains and losses

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

Year to 31 March 2014	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(58,858)	-	(58,858)
Interest and investment income	-	443	443
Net gain/(loss) for year	<u>(58,858)</u>	<u>443</u>	<u>(58,415)</u>

Year to 31 March 2013	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(58,355)	-	(58,355)
Interest and investment income	-	333	333
Net gain/(loss) for year	<u>(58,355)</u>	<u>333</u>	<u>(58,022)</u>

Fair values of assets and liabilities carried at amortised cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost (in long term assets or liabilities with accrued interest in current assets or liabilities) is disclosed below.

Methods and assumptions in valuation techniques

The fair value of an instrument is determined by calculating the net present value (NPV) of future cash flows to provide an estimate of the value of payments in the future in today's terms.

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The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation which ignores any motivation other than securing a fair price.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2014 using bid prices where applicable.

The calculations are made using the follow assumptions:

- For Public Works Loan Board (PWLB) debt, the discount rate used is the rate for new borrowing.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Where the exact maturity was not available interpolation techniques have been used.
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is deemed to be the invoiced or billed amount.

The fair values are calculated as follows:

Fair value of liabilities carried at amortised cost

31/03/13			31/03/14	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
562,344	674,567	PWLB debt	584,117	659,854
121,770	135,186	Market long term	121,749	128,107
8,004	8,004	Temporary loans	41,168	41,182
15,866	15,866	Internal loans	3,847	3,847
<u>707,984</u>	<u>833,623</u>	Financial liabilities	<u>750,881</u>	<u>832,990</u>

Fair value exceeds the carrying amount because the Council's loan portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This reflects the likely interest premium to be paid by the Council in the event of premature repayment of these loans.

Fair value of assets carried at amortised cost

31/03/13			31/03/14	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
56,478	56,478	Call accounts	52,135	52,135
19,210	19,229	Fixed term deposits	24,990	25,001
42,428	42,428	Long term debtors	41,314	41,314
<u>118,116</u>	<u>118,135</u>	Financial assets	<u>118,439</u>	<u>118,450</u>

Fair value exceeds the carrying amount because the Council's investment portfolio includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

45. 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.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they 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 period 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.

Debtors

The Council does not generally have negotiable credit terms for customers as any overdue amount is payable immediately. Sundry debtors can be analysed by age as follows:

31/03/13		31/03/14
£000		£000
7,197	Less than three months	6,445
636	Three to six months	778
1,031	Six to twelve months	1,320
3,608	More than twelve months	4,446
<u>12,472</u>	Total	<u>12,989</u>

Market risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Statement
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not affect the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would be reflected in the Comprehensive Income and Expenditure Statement
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not affect the Balance Sheet for the majority of liabilities held at amortised cost but will have an impact on the disclosure note for fair value

The Council has a number of strategies for managing interest rate risk. The policy is to set upper limits for fixed and variable rate borrowings based on the Council's annual financing requirements. 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 Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the annual budget setting process and allows for any adverse changes to be accommodated. The strategy is based on the officers views on interest rates supplemented with leading market forecasts provided by the Council's treasury adviser and covers capital expenditure and associated borrowing, prudential indicators, the current portfolio position, prospects for interest rates, economic background, borrowing strategy, debt rescheduling and investment strategy. The analysis will also consider whether new borrowing taken out is at fixed or variable rates.

According to the assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Increase in interest payable on variable rate borrowings	1,011
Increase in interest receivable on variable rate investments	<u>(522)</u>
Impact on Income and Expenditure Account	<u>489</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>93,117</u>

The impact of a 1% fall in interest rates would be as above but with the movements reversed.

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

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of financial liabilities is as follows:

2012/13			2013/14	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Loans outstanding				
562,344	674,567	Public Works Loans Board	584,117	584,011
121,770	135,186	Market long term	121,749	117,306
8,004	8,004	Temporary loans	41,168	41,168
15,866	15,866	Internal loans	3,847	3,847
<u>707,984</u>	<u>833,623</u>	Total	<u>750,881</u>	<u>746,332</u>
Maturity				
41,620	41,812	Less than 1 year	55,122	55,015
10,162	10,494	Between 1 and 2 years	1,042	1,000
43,211	46,308	Between 2 and 5 years	67,810	67,060
119,877	143,107	Between 5 and 10 years	94,075	94,052
493,114	591,902	More than 10 years	532,832	529,205
<u>707,984</u>	<u>833,623</u>		<u>750,881</u>	<u>746,332</u>

46. Events after Reporting Period

The unaudited Statement of accounts was issued by the Director of Finance on 16 June 2014 and the audited Statement of Accounts was authorised for issue on 29 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014 the financial statements have been adjusted in all material respects.

Hubco projects

The Council is currently negotiating contracts with Hubco North for the provision of three new schools and associated Community facilities. It is expected that these contracts will be signed in 2014/15.

The three projects with Hubco are as outlined below:

1. Provision of a Wick Campus facility to replace the existing Wick High School, Swimming Pool, Public Library, and Wick South and Pultneytown Academy Primary Schools. In addition to the Council's capital contribution of approximately £16m, this project will be funded by Hubco North and recovered through an Annual Service Charge levied on the Council over 25 years under the Design, Build, Finance and Maintenance contract to be signed with Hubco. The Annual Service Charge is a revenue cost estimated to be around £4m pa at current prices which is partly funded through financial support received from the Scottish Government.

2. Provision of a new Primary School to be located north of the river in Wick. This facility is to replace the existing North and Hillhead Primary Schools. The Council's affordability limit for this project is £14.8m funded from the Council's capital programme. The project will be delivered under a Design and Build Development Agreement to be signed with Hubco. The Council funds the operation of the school and there is no ongoing Annual Service Charge levied by Hubco for this project.
3. Provision of a new Inverness Royal Academy to replace the existing facility. The Council's affordability limit for this project is £35.3m funded from the Council's capital programme. This project is also going to be delivered under a Design and Build Development Agreement to be signed with Hubco. The Council funds the operation of the new school and there is no ongoing Annual Service Charge levied by Hubco for this project.

Pathfinder North

As part of the Pathfinder North 1, and successor Pathfinder North 2, partnership the Council is proposing to meet its Broadband Services requirements by drawing down services from the Scottish Wide Area Network (SWAN) from 2016/17 onwards. In order to meet this Service Commencement Date, the Council is likely to be signing a Call Off Contract in 2014/15 outlining its likely level of requirements for 2016/17. This will become a legal commitment on the Council and is likely to generate an annual cost in 2016/17 of around £4.6m (which will cover transition) and then an annual cost of between £2.2m pa and £2.5m pa for each of the remaining years of the proposed 7 year arrangement with SWAN. The actual annual cost will depend on the final specification of the Council's requirements.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movement on the Housing Revenue Account.

2012/13 £000		2013/14	
		£000	£000
	Income		
(43,679)	Dwelling rents (gross)	(44,833)	
(847)	Non-dwelling rents (gross)	(867)	
(757)	Other income	(999)	
(45,283)			(46,699)
	Expenditure		
15,287	Repairs and maintenance	16,174	
9,971	Supervision and management	9,643	
12,852	Depreciation and impairment of non-current assets	14,193	
1,311	Other expenditure	2,793	
39,421			42,803
(5,862)	Net expenditure/(income) from HRA services as included in Council Comprehensive Income and Expenditure Statement		(3,896)
205	HRA share of corporate and democratic core	231	
115	HRA share of non-distributed costs	13	
320			244
(5,542)	Net expenditure/income from HRA services		(3,652)
432	(Gain)/loss on disposal of non-current assets	(282)	
7,616	Interest payable and similar charges	8,481	
(448)	Amortisation of premiums and discounts	(482)	
(69)	Interest and investment income	(51)	
994	Pension net interest	977	
-	Capital Grants and contributions	(8,199)	
8,525			444
2,983	(Surplus)/Deficit on HRA services		(3,208)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2012/13 £000		2013/14 £000	£000
(6,804)	Balance on HRA at 1 April 2013		(6,804)
2,983	(Surplus)/Deficit for the year on HRA Income and Expenditure Statement		(3,208)
	Adjustments between accounting basis and funding basis under statute		
(432)	Gain on sale of HRA non current assets	282	
6,403	Capital expenditure funded by the HRA	3,353	
(6)	Movement in employee benefits accrual	16	
5,965			3,651
	Transfer to the Capital Adjustment Account		
(12,852)	- Depreciation and impairment	(14,193)	
6,181	- repayment of debt	6,270	
-	- Capital grants and contributions	8,199	
(6,671)			276
(1,375)	HRA share of contributions to the Pensions Reserve		(1,565)
448	HRA share of transfer from the Financial Instruments Adjustment Account		482
(1,350)	Contribution from the capital fund		(160)
(6,804)	Balance on HRA at 31 March 2014		(7,328)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/13 £000		31/03/14 £000
1,295	Current tenants	1,371
<u>1,080</u>	Former tenants	<u>1,028</u>
<u>2,375</u>	Total	<u>2,399</u>

2. Uncollectable rent voids

Uncollectable rent voids of £0.979m (2012/13 £0.832m) have been netted off against rental income

3. Impairment of debtors

In 2013/14 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/13 £000		31/03/14 £000
1,721	Rent arrears	1,704
<u>375</u>	Sundry debts	<u>471</u>
<u>2,096</u>		<u>2,175</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/13 Number	Type of House	31/03/14 Number
241	1 apartment	239
3,298	2 apartment	3,333
5,495	3 apartment	5,569
4,119	4 apartment	4,125
351	5 apartment	353
27	6 apartment	24
2	8 apartment	2
<u>1</u>	10 apartment	<u>1</u>
<u>13,534</u>		<u>13,646</u>

COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

2012/13 £000		2013/14 £000
127,610	Gross council tax levied and contributions in lieu	128,784
	- Council Tax Reduction Scheme	(12,679)
2	Council tax benefits (net of government grant)	1
	- Discounts for prompt payment	-
(14,643)	Other discounts and reduction	(14,753)
(2,984)	Write-off of uncollectable debts and allowances for impairment	(3,035)
731	Adjustments to previous years' community charge and council tax	1,633
110,716	Transfers to General Fund	99,951

Calculation of the Council Tax base 2013/14

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents	
A (dbr)	-	-	40	(4)	-	36	5/9	20	
A	19,629	(1,078)	62	(2,403)	(458)	15,752	6/9	10,501	
B	22,951	(897)	28	(2,367)	(504)	19,211	7/9	14,942	
C	22,677	(665)	(9)	(1,984)	(642)	19,377	8/9	17,224	
D	17,732	(371)	60	(1,214)	(530)	15,677	9/9	15,677	
E	17,515	(258)	(86)	(918)	(471)	15,782	11/9	19,289	
F	8,474	(91)	(56)	(325)	(206)	7,796	13/9	11,261	
G	4,068	(55)	(37)	(132)	(152)	3,692	15/9	6,153	
H	321	(12)	(2)	(5)	(39)	263	18/9	526	
Total	113,367	(3,427)	-	(9,352)	(3,002)	97,586	-	95,593	
								Council Tax Reduction	(10,903)
								Contributions in lieu	166
								Provision for non collection (3%)	(2,873)
								Council tax base	81,983

(1) A(dbr) – Band A properties with disabled band reduction

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Dwellings fall within a valuation band between A to H which is determined by the Assessor. The council tax charge is calculated using the council tax base i.e. Band D equivalents. This value is then increased or decreased depending on the band. Based on the council tax base available to Highland Council the band D charge for 2013/14 was £1,163.00.

Properties can be exempt if they are unoccupied or occupied by certain categories of occupier.

A discount of 25% is available for properties occupied by only one liable person aged 18 years or over.

A discount of 50% is available on unoccupied properties which are either purpose built holiday homes, job related dwellings, properties undergoing major repair work to render it habitable or unfurnished for less than 12 months

A discount of 10% is available if the property is either a second family home, occupied for short term lets or long term empty.

Highland Council is required to collect any domestic water and waste water charges on behalf of Scottish Water. Charges for Water & Sewerage are the responsibility of Scottish Water.

Highland Council Tax charges for 2013/14

Band A (disabled band reduction)	£646.11
Band A	£775.33
Band B	£904.56
Band C	£1,033.78
Band D	£1,163.00
Band E	£1,421.44
Band F	£1,679.89
Band G	£1,938.33
Band H	£2,326.00

NON-DOMESTIC RATE ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic rate pool

2012/13 £000		2013/14 £000
139,132	Gross rates levied and contributions in lieu	143,315
(29,158)	Reliefs and other deductions	(30,090)
(28)	Payment of interest	-
(820)	Write-off of uncollectible debts and allowance for impairment	(1,087)
109,126	Net Non-Domestic Rate Income	112,138
(1,373)	Adjustment to previous years' national Non-Domestic rates	(5,783)
107,753	Total Non-Domestic Rate Income (before council retentions)	106,355
(1,300)	Non-Domestic Rate Income retained by Council under the Business Rates Incentivisation Scheme	-
106,453	Contribution to Non-Domestic Rate Pool	106,355

Non-Domestic Rate Income as reported under Taxation and non-specific grant income comprises income assigned by the Scottish Government from the national non-domestic rates pool, as well as non-domestic rate income which is not submitted to the national pool but is retained by the Council.

106,091	Distribution from Non-Domestic Rate Pool	114,154
1,300	Non-Domestic Rate Income retained by Council under the Business Rates Incentivisation Scheme	-
107,391	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	114,154

Net Rateable Value Calculation

The amount paid for NNDR is determined by the rateable value placed on the property by the Assessor multiplied by the rate per pound, which is determined each year by the Scottish Government. The NNDR poundage rate set by the Scottish Government for 2013/14 was 46.2p on rateable value equal to or less than £35,000 and 47.1p on rateable value greater than £35,000. In addition, large retail properties with a Rateable Value of £300,000 or more which sell both alcohol and tobacco are required to pay a Public Health Supplement of 13p.

Business Rates Incentivisation Scheme (BRIS)

The BRIS scheme permits the council to retain half of the NDR income in excess of the target set by the Scottish Government. In 2012/13 income of £107.8m was achieved against a target of £105.2m and the Council retained half of the £2.6m excess. A review of the operation of the BRIS is underway but there is no anticipated income due under the scheme for 2013/14.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2013/14

Highland Council Rateable Values

1 April 2012			1 April 2013	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,635	65,501	Shops	2,644	67,978
883	19,508	Public houses and hotels	889	19,546
1,726	27,970	Offices	1,740	27,960
2,661	39,962	Industrial subjects	2,686	39,980
4,694	20,350	Leisure, entertainment, caravans and holiday sites	4,827	20,585
357	4,738	Garages and petrol stations	355	4,580
1,026	22,277	Cultural, sporting subjects, education and training	1,034	22,938
1,160	14,345	Public service subjects	1,156	14,373
2,037	89,085	Miscellaneous	2,042	89,288
17,179	303,736	Total	17,373	307,228

COMMON GOOD FUNDS ACCOUNTS

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.

Accounting Policies

The Common Good accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 1 to the financial statements. In addition The Common Good fund has investment properties which are those used solely to earn rentals and for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Investment properties are not depreciated but are revalued annually. Gains and losses on revaluation are recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment applies to gains and losses on disposal.

MOVEMENT IN RESERVES STATEMENT 2012/13	Common Good Balance	Total Usable Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Unusable Reserves	Total Common Good Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012 as restated below	7,690	7,690	2,437	2,123	32,589	37,149	44,839
Movement in reserves during 2012/13							
Surplus/(deficit) on provision of services	(1,369)	(1,369)	-	-	-	-	(1,369)
Other Comprehensive Income and Expenditure	-	-	1,310	-	-	-	1,310
Adjustments between accounting and funding basis	931	931			(931)		(931)
Balance at 31 March 2013 carried forward	<u>7,252</u>	<u>7,252</u>	<u>3,747</u>	<u>2,123</u>	<u>31,658</u>	<u>37,149</u>	<u>44,780</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2013/14

MOVEMENT IN RESERVES STATEMENT 2013/14	Common Good Balance	Total Usable Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Unusable Reserves	Total Common Good Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013 as restated	7,252	7,252	3,747	2,123	31,658	37,528	44,780
Movement in reserves during 2013/14							
Surplus/(deficit) on provision of services	(2,745)	(2,745)	-	-	-	-	(2,745)
Other Comprehensive Income and Expenditure	-	-	378	(237)	-	141	141
Adjustments between accounting and funding basis	2,984	2,984	-	-	(2,984)	(2,984)	-
Balance at 31 March 2014 carried forward	<u>7,491</u>	<u>7,491</u>	<u>4,125</u>	<u>1,886</u>	<u>28,674</u>	<u>34,685</u>	<u>42,176</u>

The adjustment between accounting and funding basis of £2,984k comprises £2,629k of a deficit on revaluation of investment properties, disposal £345k, depreciation of £9k and amortisation of £1k.

Restatement of Balances at 31 March 2012

	Common Good Balance £000	Capital Fund £000	Revaluation Reserve £000	Donated Assets Reserve £000	Capital Adjustment Account £000	Available for Sale Reserve £000
Balance at 31 March 2012	6,624	3,593	34,344	248	30	-
Adjustments	1,066	(3,593)	(32,221)	(248)	32,559	2,437
Balance at 31 March 2012 as restated	<u>7,690</u>	<u>-</u>	<u>2,123</u>	<u>-</u>	<u>32,589</u>	<u>2,437</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2013/14

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2012/13 (restated)				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
2,436	(108)	2,328	Inverness	2,500	(75)	2,425
48	(33)	15	Nairn	42	(14)	28
47	(11)	36	Tain	81	(58)	23
18	-	18	Dornoch	17	-	17
-	(3)	(3)	Dingwall	1	-	1
10	-	10	Fortrose	-	-	-
4	-	4	Cromarty	2	-	2
-	-	-	Invergordon	4	-	4
2,563	(155)	2,408	Cost of services	2,647	(147)	2,500
		(1,039)	Financing and investment income and expenditure (note 1)			635
		-	Write off of loan			(390)
		1,369	(Surplus)/deficit on provision of services			2,745
		-	(Surplus)/deficit on revaluation of heritage assets			237
		(1,310)	(Surplus)/deficit on revaluation of available for sale financial assets			(378)
		-	Other comprehensive income and expenditure			-
		59	Total comprehensive income and expenditure			2,604

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 MARCH 2014**

31/03/13 £000 (restated)		Notes	31/03/14 £000
		3	
211	Property, Plant and Equipment		202
2,123	Heritage Assets		1,886
31,420	Investment Properties		28,446
27	Intangible Assets	5	26
10,348	Investments	6	10,911
44,129	Long Term Assets		41,471
-	Short term investments		-
1,484	Cash and cash equivalents	7	763
97	Sundry debtors		34
1,581	Current Assets		797
(196)	Sundry creditors		(92)
(196)	Current Liabilities		(92)
1,385	Net current assets		705
(734)	Long term liabilities		-
44,780	Net assets		42,176
7,252	Revenue funds		7,491
7,252	Usable Reserves	8	7,491
2,123	Revaluation Reserve		1,886
31,658	Capital Adjustment Account		28,674
3,747	Available for Sale Reserve		4,125
37,528	Unusable Reserves	9	34,685
44,780	Total Reserves		42,176

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2013/14

CASH FLOW STATEMENT

31/03/13 £000 (restated)		31/03/14 £000
(1,369)	Net surplus/(deficit) on the provision of services	(2,745)
682	Adjust net surplus/(deficit) on the provision of services for non-cash movements	2,024
(687)	Net cash flow from operating activities	(721)
1,250	Investing activities	-
563	Net decrease in cash and cash equivalents	(721)
921	Cash and cash equivalents at 1 April 2013	1,484
1,484	Cash and cash equivalents at 31 March 2014	763

NOTES TO THE COMMON GOOD FUNDS ACCOUNTS**1. Comprehensive income and expenditure statement – Financing and investment income and expenditure**

2012/13 £000		2013/14 £000
(314)	Interest and investment income and expenditure	(242)
(1,966)	Rental income	(2,050)
318	Property costs	298
931	(Surplus)/deficit on revaluation of investment properties	2,629
(8)	Gain on sale of assets	-
<u>(1,039)</u>		<u>635</u>

2. Operating leases

Common Good Fund as lessor

The Common Good Fund leases out property under operating leases to generate rental income.

2012/13 £000 (restated)		2013/14 £000
<u>1,965</u>	Lease income received in year	<u>2,050</u>

The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

31/03/13 £000		31/03/14 £000
1,917	Within one year	1,917
5,613	Later than one year and not later than five years	5,178
64,920	Later than five years	63,736
<u>72,450</u>		<u>70,831</u>

3. Non current assets

Movements in 2013/14

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 1 April 2013	31,420	2,123	220	33,763
Revaluations	(2,629)	(237)	-	(2,866)
Disposals	(345)	-	-	(345)
As at 31 March 2014	<u>28,446</u>	<u>1,886</u>	<u>220</u>	<u>30,552</u>
Accumulated depreciations as at 1 April 2013	-	-	9	9
Depreciation charge	-	-	9	9
As at 31 March 2014	<u>-</u>	<u>-</u>	<u>18</u>	<u>18</u>
Net book value				
As at 31 March 2014	<u>28,446</u>	<u>1,886</u>	<u>202</u>	<u>30,534</u>
As at 31 March 2013	<u>31,420</u>	<u>2,123</u>	<u>211</u>	<u>33,754</u>

Robert Smail (MRICS), Property Manager, Housing and Property Services, Highland Council carried out the asset valuations of investment properties as at 1 April 2013 in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors.

Investment properties include land at Sandown belonging to Nairn Common Good fund. During the year, land at Sandown to the value of £0.344m was transferred to Highland Council.

Heritage assets relate to works of art and other movables and are included at insurance values.

4. Investment property

The Common Good Funds own a number of properties which are held to generate rental income and for capital appreciation. These are accounted for as investment property and are held at fair value in accordance with the Code. The fair value reflects market conditions at the balance sheet date and is reviewed annually. Gains or losses arising from changes in the fair value are recognised in the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement. The consumption of economic benefits in each asset over time is reflected in the fair value of the property and therefore investment properties are not depreciated. Investment properties are leased out to third parties under operating leases. At the balance sheet date the fair value of investment properties held by each fund was as follows:

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2013/14

31/03/13 £000	Common Good Fund Investment Property at Fair Value	31/03/14 £000
20,719	Inverness	21,272
10,000	Nairn	6,473
260	Tain	260
55	Dornoch	55
150	Dingwall	150
99	Fortrose	99
43	Cromarty	43
94	Invergordon	94
<u>31,420</u>		<u>28,446</u>

5. Intangible assets

2012/13 £000		Fishing Licence £000
-	As at 1 April 2013	27
28	Additions	-
(1)	Amortisation	(1)
<u>27</u>	As at 31 March 2014	<u>26</u>

6. Long Term Investments

31/03/13			31/03/14	
Cost £000	Valuation £000		Cost £000	Valuation £000
6,083	10,342	Inverness - Managed portfolio	6,779	10,905
<u>6</u>	<u>6</u>	Nairn	<u>6</u>	<u>6</u>
<u>6,089</u>	<u>10,348</u>		<u>6,785</u>	<u>10,911</u>

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

31/03/13 Units Held			31/03/14 Units Held	
Cost £000	Value £000		Cost £000	Value £000
135	41	Property	135	44
4,267	8,485	Equities	4,847	8,951
1,269	1,404	Bonds	1,269	1,382
412	412	Cash	528	528
<u>6,083</u>	<u>10,342</u>	Total	<u>6,779</u>	<u>10,905</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2013/14

7. Cash and cash equivalents

31/03/13		31/03/14
£000		£000
<u>1,484</u>	Balance with Highland Council Loans Fund	<u>763</u>

8. Usable Reserves**Common Good Funds**

Fund	Balance at 1/04/13 £000	Movement 2013/14 £000	Balance at 31/03/14 £000
Inverness	6,842	(476)	6,366
Nairn	(650)	726	76
Tain	487	(41)	446
Dornoch	213	6	219
Dingwall	133	13	146
Fortrose	150	11	161
Cromarty	16	1	17
Invergordon	61	(1)	60
Total	<u>7,252</u>	<u>239</u>	<u>7,491</u>

9. Unusable Reserves**Revaluation Reserve**

Fund	Balance at 1/04/13 (restated) £000	Revaluations 2013/14 £000	Balance at 31/03/14 £000
Inverness	1,639	(187)	1,452
Nairn	60	-	60
Tain	13	-	13
Dornoch	(1)	23	22
Dingwall	-	-	-
Fortrose	127	127	254
Cromarty	-	-	-
Invergordon	285	(200)	85
Total	<u>2,123</u>	<u>(237)</u>	<u>1,886</u>

Capital Adjustment Account

Fund	Balance at 1/04/13 £000	Revaluations 2013/14 £000	Disposals £000	Depreciation and amortisation £000	Balance at 31/03/14 £000
Inverness	20,719	553		(30)	21,242
Nairn	10,000	(3,182)	(345)		6,473
Tain	498	-	-	20	518
Dornoch	55	-	-	-	55
Dingwall	150	-	-	-	150
Fortrose	99	-	-	-	99
Cromarty	43	-	-	-	43
Invergordon	94	-	-	-	94
Total	<u>31,658</u>	<u>(2,629)</u>	<u>(345)</u>	<u>(10)</u>	<u>28,674</u>

Available for Sale Reserve

Fund	Balance at 1/04/13 £000	Revaluations 2013/14 £000	Balance at 31/03/14 £000
Inverness	3,747	378	4,125
Nairn	-	-	-
Tain	-	-	-
Dornoch	-	-	-
Dingwall	-	-	-
Fortrose	-	-	-
Cromarty	-	-	-
Invergordon	-	-	-
Total	3,747	378	4,125

10. Financial Instrument balances

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

31/03/13			31/03/14	
Long term £000	Current £000		Long term £000	Current £000
10,348	-	Investments	10,911	-
	1,484	Cash		763
-	97	Debtors	-	34
734	-	Long term liabilities	-	-
-	196	Creditors	-	92

11. Events after the Balance Sheet date

On 4 March 2014 the City of Inverness Area Committee agreed options for a proposed renovation project for the Inverness Town House. This will require approximately £7.25m to be made available over the next 5 years, from liquidation of long term investments, which will significantly reduce the existing Fund balance and reduce scope for supporting new projects in the foreseeable future.

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

**CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS
RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014**

2012/13 (restated)				2013/14		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(97)	(33)	(108)	Receipts	(364)	(13)	(191)
19	16	217	Payments	326	9	176
<u>(78)</u>	<u>(17)</u>	<u>109</u>	(Surplus)/deficit for the year	<u>(38)</u>	<u>(4)</u>	<u>(15)</u>

Receipts and Payments in 2013/14 include the transfer of funds to the Highland Charities Trust and Highland Council Charitable Trusts.

RESTATEMENT OF OPENING BALANCES

Highland Council administers two registered Scottish Charities which are for the benefit of various specific causes. During 2013/14, an exercise was carried out to amalgamate 54 of the former charitable trusts and 28 of the other trust funds into a new trust called Highland Charities Trust. A further 2 former educational trusts and 3 former other trust funds were added to the Highland Council Charitable Trusts Scottish Charity Number. All the remaining dormant trusts have been removed from the Office of the Scottish Charities Register. Annual accounts have been prepared for each of the 2 charities under the Office of the Scottish Charities Register Regulations.

The following adjustments were made to the opening balances as a result of the transfer of charities into the new charitable trusts:

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

CHARITABLE TRUSTS

At 31 March 2014 the balances and investments held are as follows:

(Note in 2013-14 those charities removed from Office of the Scottish Charities Register have been removed)

31 March 2013				Note	31 March 2014			
Fund Balance £000	(restated) Investments at cost £000	Investments at valuation £000	Charity	Scottish Charity Number		Fund Balance £000	Investments at cost £000	Investments at valuation £000
-	-	-	Highland Charities Trust	044714	1	203	26	33
193	23	29	Charitable Trusts		1	-	-	-
18	3	-	Included in Other Trusts		1	-	-	-
<u>211</u>	<u>26</u>	<u>29</u>				<u>203</u>	<u>26</u>	<u>33</u>
974	118	1,415	Highland Council Charitable Trusts	025079	2	1,135	121	1,501
100	-	-	Included in Educational Trusts		2	-	-	-
12	3		Included in Other Trusts		2	-	-	-
<u>1086</u>	<u>121</u>	<u>1415</u>				<u>1,135</u>	<u>121</u>	<u>1,501</u>
<u>1,297</u>	<u>147</u>	<u>1,444</u>	Total Charitable Trusts			<u>1,338</u>	<u>147</u>	<u>1,534</u>

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

Note 1 HIGHLAND CHARITIES TRUST

The following charities were amalgamated in 2013/14 to form Highland Charities Trust:

Charitable Trusts:

**Fund Balance at 31
March 2013 (£)**

John Rutherford Trust For Poor Of Kildonan	923
Miss E Kemp Bequest For Poor Of Rosemarkie	526
Grantown War Memorial Fund	882
West Coast Of Ross-Shire (Mainland) Distress Fund	7,652
John Martin Trust To Give Christmas Dinner To The Poor Of Invergordon	113
Mcculloch Bequest For The Poor Of Durness	78
John Couper Bequest For Poor Of Helmsdale	742
Coull Mortification	668
Donald Cameron Of Erracht Bequest For Poor Of Kilmallie	4,588
John Rose Troup Charitable Trust	2,268
Grigor Bequest For Confirmed Invalids	598
Duncan Cameron Trust For Poor Of Abernethy	2,442
Grigor Bequest For Poor Of Parish Of Cawdor	2,811
Highland Heart Fund	17,360
Frederick Klein Mortification	644
Mrs Jane Masson Bequest	525
F W Grant Bequest	987
William Davidson Bequest	876
Miss Adeleine Florence Henderson Bequests	2,857
William Murray Bequest For Poor Of Wick	1,165
William Murray Bequest For Wick Library	14,987
Murray (Olig) Bequest	618
Oswald (Dunnet) Bequest	376
Davidson - Cumming Bequest	1,105
Oswald (Bower) Mortification	225
Alexander Wares Bequest For Poor	9,363
George Swanson Trust	13,592
James Cormack Bequest	1,577
John Sutherland Poor Cooper's Fund	818
John Jacobus Harper Trust	336

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

Charitable Trusts:

**Fund Balance at 31
March 2013 (£)**

Thomas L Rettie Bequest For Poor	161
Jane Cormack Bequest	53
John Sutherland (Fish Curer) Poor Fund	210
Sir Josiah H Symon Poor Fund	2,009
Miss L E M Rose Bequest	803
Nairnshire Boot Fund	841
Miss Emma M Fraser Bequest For The Poor Of Nairn	12,721
Knockie Trust Fund	2,566
Duncan Macbean Bequest	529
Kennedy Trust For Poor	667
John Fraser Bequest	316
Hugh Leslie Bequest	192
George Murray Senr Coal Fund	133
David Thomson Bequest For Poor	366
Alex Thomson Bequest For Poor	366
David Thomson Bequest For Ex-Seaforth Highlanders	228
Ronald Ross Gift	108
George Macleod Bequest	185
Tain War Memorial Fund	301
Dr Donald Grant Legacy	1,881
George Harvey Trust	497
Miss Margaret Charlotte Stuart Legacy	26,513
Gairloch High School Howard Doris Fund	39,705
Highland Regional Childrens Panel 20th Anniversary Trust Fund	10,386
Total Charitable Trusts	193,439

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

Included in Other Trusts:

**Fund Balance at 31
March 2013 (£)**

Burnside Bequest Cromdale	138
Castle Commando Trust	7,732
Macbean Bequest Daviot	1,462
Dr A A C Grant Bequest	207
Thomson Bequest Fund	506
G Urquhart Bequest	302
Alex MacLean's Trust	221
W Simpson Bequest	176
Viscount Tarbat Barley Trust	839
Miss MacLeod Bequest	105
Kynoch Bequest - Invergordon	726
Miss M A Ross Fund	209
R G Fraser MacKenzie	111
Wm Murray Bequest	119
D Fraser Bequest - Tain	210
D Duff Bequest - Tain	367
J Ross Bequest - Tain	120
Miss I Munro Bequest	89
G Murray Westfield Fund	356
Alex Ross Fund - Tain	528
A M Macdonald Trust	511
Skye Patriotic Fund	830
Glenelg War Memorial	1,132
Mccrone Bequest	159
Ross Bequest	575
Total Other Trusts	17,730
Total transferred to Highland Charities Trust	211,169

Note 2 HIGHLAND COUNCIL CHARITABLE TRUSTS

The following charities were included as prior year comparatives within Highland Council Charitable Trusts:

Charity	Fund Balance at 31 March 2013 £
Included in Educational Trusts:	
Caithness Educational Trust	170,048
Adjustment for Investment Property	100,000
Inverness-Shire Educational Trust	221,505
Ross & Cromarty Educational Trust	482,230
	<hr/>
Total Educational Trusts	973,783
Total Highland Council Charitable Trusts	973,783
	<hr/> <hr/>

The following charities were amalgamated in 2013/14 to be included Highland Council Charitable Trusts:

Included in Educational Trusts:	
Sutherland Educational Trust	100,112
	<hr/>
Other Trusts:	
Forbes Meteorological Trust	309
Duncraig College Fund	540
A M Mackay's Bequest	149
John Kirk's Mortification Trust	11,125
	<hr/>
	12,123
	<hr/> <hr/>

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

EDUCATIONAL TRUST FUNDS

Highland Council administers 42 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2013 the balances and investments held are as follows:

31 March 2013 (restated)				31 March 2014		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
818	793	793	Duncraig Endowment	811	793	793
20	1	2	George Kerr Bequest	20	1	-
29	-	-	Howard Doris fund – Plockton High School	29	-	-
252	45	319	Inverness Royal Academy Educational Trust	260	45	389
134	-	-	Manson Bequest – Keiss	135	-	-
127	-	-	Manson Bequest – Nairn and Ardclach	128	-	-
14	-	-	Miss B G Angus Executory	14	-	-
111	8	7	Other Educational Trusts	112	8	5
1,505	847	1,121	Total Educational Trusts	1,509	847	1,187

TRUST FUNDS STATEMENT OF ACCOUNTS 2013/14

OTHER TRUST FUNDS

Highland Council administers other trust funds which are for the benefit of various specific causes and are administered in accordance with the terms of the individual bequests. The balances and investments held are as follows:

31 March 2013 (restated)				31 March 2014		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
760	749	1,331	Inverness Burial Grounds Fund	768	676	1,182
432	393	640	Inverness Benevolent Funds	447	397	683
75	-	-	Social Work Amenity Funds	62	-	-
150	-	-	Inverness – Other Trust Funds	152	-	-
7	2	3	Badenoch and Strathspey Trust Funds	7	2	3
154	17	15	Caithness Trust Funds	152	17	17
81	1	1	Lochaber Trust Funds	87	1	2
81	3	3	Nairn Trust Funds	81	3	3
143	8	7	Ross and Cromarty Trust Funds	143	8	10
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
25	-	-	Sutherland Trust Funds	25	-	-
1,910	1,173	2,000	Total other trust funds	1,926	1,104	1,900

GROUP ACCOUNTS

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 my 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, High Life Highland, HITRANS and the Highland and Western Isles Valuation Joint Board. 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.
- As appropriate, formal project management disciplines.

The Director of Finance being Treasurer to the Highland and Western Isles Valuation Joint Board and HITRANS has overall responsibility for Internal Audit in the Group Organisation described above. The Highland Council's Head of Internal 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 Internal 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 Council, Highland and Westerns Isles Valuation Joint Board and HITRANS
- The work of the internal auditors as described above.
- The external auditors in their annual audit letters and other reports.

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

Highland Council

- Weaknesses relating to Highland Council are detailed in the Corporate Governance Statement on pages 16-18 of this document. Appropriate actions to address these weaknesses have been agreed.

Inverness and Nairn Common Good Funds

- No significant weaknesses were identified

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Transport Partnership

- No significant weaknesses were identified.

High Life Highland

- No significant weaknesses were identified.

Derek Yule B.Com, CPFA, IRRV(Hons)

Director of Finance

29 September 2014

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

GROUP ACCOUNTS

GROUP MOVEMENT IN RESERVES STATEMENT 2012/13 (restated)

HIGHLAND COUNCIL	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2012 brought forward	32,402	6,804	1,318	1,665	2,226	30,238	74,653	866,795	941,448
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services	21,103	(2,983)	-	-	-	-	18,120	-	18,120
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	(25,867)	(25,867)
Total Comprehensive Expenditure and income	21,103	(2,983)	-	-	-	-	18,120	(25,867)	(7,747)
Adjustments between accounting basis and funding basis under regulations	(13,162)	1,633	199	-	-	-	(11,330)	11,330	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	7,941	(1,350)	199	-	-	-	6,790	(14,537)	(7,747)
Transfers to/from other statutory reserves	(2,453)	1,350	-	2	168	933	-	-	-
Increase/(decrease) in 2012/13	5,488	-	199	2	168	933	6,790	(14,537)	(7,747)
Balance at 31 March 2013 carried forward	37,890	6,804	1,517	1,667	2,394	31,171	81,443	852,258	933,701

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

GROUP 2012/13	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2012 brought forward	941,448	42,237	(275,262)	708,423
Movement in reserves during 2012/13				
Surplus/(deficit) on provision of services	18,120	347	(15,591)	2,876
Other Comprehensive Expenditure and Income	(25,867)	(87)	(9,221)	(35,175)
Total Comprehensive Expenditure and Income	(7,747)	260	(24,812)	(32,299)
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(7,747)	260	(24,812)	(32,299)
Transfers to/from other statutory reserves	-	-	-	-
Increase/(decrease) in 2012/13	(7,747)	260	(24,812)	(32,299)
Balance at 31 March 2013 carried forward	933,701	42,497	(300,074)	676,124

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

HIGHLAND COUNCIL	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2013 brought forward	37,890	6,804	1,517	1,667	2,394	31,171	81,443	852,258	933,701
Movement in reserves during 2013/14									
Surplus/(deficit) on provision of services	(5,884)	3,208	-	-	-	-	(2,676)	-	(2,676)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	(48,355)	(48,355)
Total Comprehensive Expenditure and Income	(5,884)	3,208	-	-	-	-	(2,676)	(48,355)	(51,031)
Adjustments between accounting basis and funding basis under regulations	10,583	(2,844)	368	-	-	-	8,107	(8,107)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	4,699	364	368	-	-	-	5,431	(56,462)	(51,031)
Transfers to/from other statutory reserves	(2,249)	160	-	2	15	532	(1,540)	1,540	-
Increase/(decrease) in 2012/13	2,450	524	368	2	15	532	3,891	(54,922)	(51,031)
Balance at 31 March 2014 carried forward	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

GROUP 2013/14	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2013 brought forward	933,701	42,497	(300,074)	676,124
Less Police and Fire Board balances transferred on 1 April 2013	-	-	296,618	296,618
	933,701	42,497	(3,456)	972,742
Movement in reserves during 2013/14				
Surplus/(deficit) on provision of services	(2,675)	(2,765)	(290)	(5,730)
Other Comprehensive Expenditure and Income	(48,356)	(1,618)	(329)	(50,303)
Total Comprehensive Expenditure and income	(51,031)	(4,383)	(619)	(56,033)
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(51,031)	(4,383)	(619)	(56,033)
Transfers to/from other statutory reserves	-	-	-	-
Increase/(decrease) in 2013/14	(51,031)	(4,383)	(619)	(56,033)
Balance at 31 March 2014 carried forward	882,670	38,114	(4,075)	916,709

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		2012/13			2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
260,093	(10,825)	249,268	Education Services	262,610	(9,990)	252,620	
76,945	(63,619)	13,326	Housing Services	74,207	(60,710)	13,497	
40,591	(46,226)	(5,635)	Council Housing - Housing Revenue Account	43,782	(47,678)	(3,896)	
15,972	(1,462)	14,510	Cultural and Related Services	14,692	(853)	13,839	
45,311	(5,843)	39,468	Environmental Services	68,231	(31,820)	36,411	
54,362	(7,965)	46,397	Roads and Transport Services	83,577	(37,527)	46,050	
20,258	(13,029)	7,229	Planning and Development Services	20,521	(14,151)	6,370	
150,447	(31,546)	118,901	Social Work Services	142,990	(13,400)	129,590	
8,058	(6,997)	1,061	Central Services to the Public	12,286	(19,495)	(7,209)	
			Joint Board Requisitions:				
16,375	(728)	15,647	Northern Joint Police Board	2,100	-	2,100	
15,614	-	15,614	Highland and Islands Fire Board	33	-	33	
2,378	-	2,378	Highlands and Western Isles Valuation Joint Board	2,345	-	2,345	
89	-	89	Highland and Islands Transport Partnership	89	-	89	
10,353	(154)	10,199	Corporate and Democratic Core	10,647	(29)	10,618	
5,428	-	5,428	Non Distributed Costs	3,842	-	3,842	
14,017	-	14,017	Operating results subsidiaries	14,344	-	14,344	
15,591	-	15,591	Operating results associates	290	-	290	
751,882	(188,394)	563,488	Cost of Services	756,586	(235,653)	520,933	
		328	Other operating expenditure			216	
		57,005	Financing and investment income and expenditure			60,120	
		(623,697)	Taxation and non-specific grant income			(575,539)	
		(2,876)	Deficit/(Surplus) on provision of services			5,730	
		7,701	Deficit on revaluation of non-current assets			9,061	
		27,474	Remeasurements of the net defined liability			41,242	
		35,175	Other comprehensive income and expenditure			50,303	
		32,299	Total Comprehensive Income and Expenditure			56,033	

GROUP BALANCE SHEET

31/03/13 £000		31/03/14 £000
2,063,535	Property, plant & equipment	2,111,753
1,698	Heritage Assets	1,512
160	Intangible assets	80
11,351	Long term investments	11,972
(300,075)	Investments in associates and joint ventures	(4,075)
41,694	Long term debtors (net of impairment)	41,314
1,818,363	Long term assets	2,162,556
5,005	Short term investments	31,092
5,620	Inventories	5,616
51,932	Short term debtors	53,210
63,807	Cash and cash equivalents	41,525
2,023	Assets held for sale	989
128,387	Current assets	132,432
(55,351)	Short term borrowing	(56,608)
(103,843)	Short term creditors	(102,367)
(1,076)	Provisions	(1,224)
-	Capital Grants Receipts in Advance	(5,054)
(160,270)	Current liabilities	(165,253)
(2,250)	Long term provisions	-
(652,179)	Long term borrowing	(694,565)
(455,927)	Other long term liabilities	(518,461)
(1,110,356)	Long term liabilities	(1,213,026)
676,124	Net assets	916,709

GROUP BALANCE SHEET (CONTINUED)

31/03/13		31/03/14
£000		£000
1,517	Capital Receipts Reserve	1,885
1,667	Renewal and Repair Fund	1,669
31,171	Capital Fund	31,703
2,394	Insurance Fund	2,409
38,264	General Fund	40,340
6,804	Housing Revenue Account	7,328
9,724	Share of group and associate usable reserves	6,612
91,541	Usable reserves	91,946
366,359	Revaluation Reserve	353,235
859,392	Capital Adjustment Account	878,289
(35,097)	Financial Instruments Adjustment Account	(33,075)
(329,521)	Pensions Reserve	(392,349)
(8,875)	Employee Statutory Adjustment Account	(8,764)
(267,675)	Share of group and associate unusable reserves	27,427
584,583	Unusable reserves	824,763
676,124	Total reserves	916,709

The unaudited Statement of Accounts was issued on 16 June 2014 and the audited statement of accounts was authorised for issue on 29 September 2014.

Derek Yule B.Com, CPFA, IRRV(Hons)
 Director of Finance
 29 September 2014

GROUP CASH FLOW STATEMENT

2012/13 (restated) £000		2013/14 £000
2,876	Net (deficit)/surplus on the provision of services	(5,730)
103,103	Adjust net (deficit)/surplus on provision of services for non-cash movements	65,398
<u>(40,594)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(22,679)</u>
65,385	Net cash inflow from operating activities	36,989
(116,364)	Investing activities	(134,463)
<u>57,487</u>	Financing activities	<u>75,192</u>
6,508	Net increase or decrease in cash and cash equivalents	(22,282)
<u>57,299</u>	Cash and cash equivalents at 1 April 2013	<u>63,807</u>
<u>63,807</u>	Cash and cash equivalents at 31 March 2014	<u>41,525</u>

NOTES TO THE GROUP ACCOUNTS**1. Accounting policies**

The group accounting policies are those specified for the single entity financial statements. The accounting policies of all group members are materially the same as those of the single entity.

2. Interest in other entities

Highland Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interests in all types of entity to incorporate into group accounts.

The financial statements in the group accounts are prepared in accordance with the accounting policies set out in the accounting policies starting on page 44.

3. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 4), the effect on the group balance sheet is an increase in net assets and reserves of £34.039m. This represents Highland Council's share of the net assets in these entities.

4. Group entities

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

Subsidiaries

Highland Council has a 100% interest in the following entities:

- Inverness Common Good Fund
- Nairn Common Good Fund
- High Life Highland Ltd – a charitable company limited by guarantee. Highland Council is the sole member with its liability limited to £1. The company delivers a range of community learning and leisure services on behalf of The Highland Council. It has charitable status and has one wholly owned subsidiary High Life Highland (Trading) CIC whose principal aim is to generate funds to be used by the charity in pursuit of its charitable objectives.

Results for the year	Surplus/(deficit) on provision of services £000	Net assets/liabilities £000
High Life Highland	204	(1,711)
Inverness Common Good	(242)	33,217
Nairn Common Good Fund	2,803	6,608
	<u>2,765</u>	<u>38,114</u>

Associates

Highland Council has interests in associates as follows:

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

The joint boards have a wide range of functions to discharge. Members of each board are elected councillors who are appointed by the Council in proportions specified in legislation.

THE HIGHLAND COUNCIL GROUP STATEMENT OF ACCOUNTS 2013/14

Under accounting standards guidance, Highland Council can be seen to have significant influence over these statutory bodies, through nominated Council Member involvement in each governing board.

The financial results of the Associates for 2013/14 were as follows:

Results for the year		Surplus on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		347	(5,012)
Highland and Islands Transport Partnership		44	(241)
		<u>391</u>	<u>(5,253)</u>

Group share		Surplus on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		278	(4,010)
Highland and Islands Transport Partnership		12	(66)
		<u>290</u>	<u>(4,076)</u>

5. Non material interest in other entities

Highland Council also has an interest in the following entities which have not been consolidated into the Council's group accounts as the amounts are not material.

- Highland Opportunity Limited (HOL)
- Common Good Funds – Tain, Dornoch, Fortrose, Cromarty and Invergordon

6. Events after the Balance Sheet date

The Unaudited Statement of Accounts was issued by the Director of Finance on 16 June 2014 and the audited Statement of Accounts was authorised for issue on 29 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014 the financial statements have been adjusted in all material respects.