



The Highland Council

Annual Accounts

Cunntasan Bliadhnail

2014/15

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MANAGEMENT COMMENTARY

Introduction

The requirements governing the format and content of the accounts of local authorities are contained in The Code of Practice on Local Authority Accounting in the United Kingdom (The Code). This document contains the annual accounts of both Highland Council and its Group for the year ended 31 March 2015.

Council Structure

The Council has 5 service departments as follows:

- Care and Learning
- Community Services
- Corporate Development
- Finance
- Development and Infrastructure

In addition the Chief Executive's office is supported by the Policy and Reform, Corporate Leadership Support and Corporate Communications Office teams.

The Council is made up of 80 elected members, serving on 14 four-member wards and 8 three-member wards. Members are elected for a term of 5 years with the next election due in 2017.

Strategic Aims

Along with community planning partners and the Scottish Government, the Council has made 16 commitments to identify areas of improvement and to deliver better outcomes for the people of the Highlands. These are included in a Single Outcome Agreement.

The Administration of the Council has put together "Working together for the Highlands" which is an ambitious plan of what it wants to achieve from 2012 to 2017. It outlines the political commitments and priorities and is tailored to make sure the aims of the Single Outcome Agreement are met.

The corporate plan details how the Council will measure the actions of "Working together for the Highlands" and to deliver the corporate plan. Council departments have their own service plans.

Copies of the Single Outcome Agreement, "Working together for the Highlands", the Corporate Plan and Service Plans are all available on the Highland Council website.

At a special Council meeting in August 2015 the Council agreed a new programme for the period to May 2017 entitled Highland First. The new Administration however continues to have dialogue with other parties on the Council to add additional actions to the programme.

Service changes and Future Developments

There have been no significant changes in statutory functions during the year.

In 2014/15 the Council fully implemented a restructure of its Senior Management, Service and Committee structure which had commenced during 2013/14. As a result, the number of Services and Service Directors has reduced by two. The revised Service structure is as follows:

Chief Executive's Office	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.

Performance Management

The council's approach to reporting on performance at both a Corporate and a Service level is set out in the Councils' Corporate Performance Framework, SPI Internal Guidance and the Council's Service Planning guidance which sets out the performance planning cycle annually. Key deliverables such as the annual corporate performance report and Service plans are monitored through the Code of Corporate Governance approved annually by the Resources Committee. All strategic performance reports are presented to full Council and operational and Service Plans to Strategic Committees annually.

This approach to performance management is underpinned by the Council's Values - Supporting, Listening, Valuing, Delivering, Improving, Partnering and Open. These processes are reviewed annually to ensure continuous improvement in our monitoring and reporting of progress against the council's commitments and programmes. There is a particular focus on public performance reporting and ensuring published materials are fit for purpose and take account of citizen's views which are gathered through for example the Citizens Panel and Annual Attitudes and Performance Survey.

The key annual performance reports are:

- Annual Corporate Performance Report (Council Programme)
- SPI report on Local Government Benchmarking Framework (LGBF)
- Annual Attitudes and Performance Survey
- Single Outcome Agreement and Annual Report
- Quarterly Performance Reports to the Chief Executive
- Quarterly Performance reports to Council Leadership
- Key thematic reports on Equalities, Climate Change and Community Safety
- Financial reports and Frequently Asked Questions (FAQ) sheets on financial performance and how Council budgets are spent

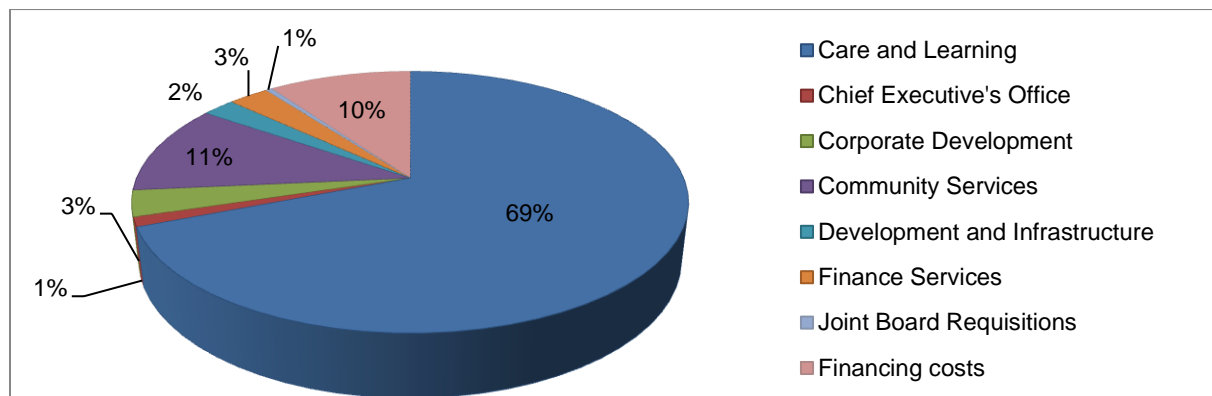
The Council creates accessibility to all key performance reports and financial information on its website including benchmarking at How the Council Performs on www.highland.gov.uk

Financial Performance

General Fund

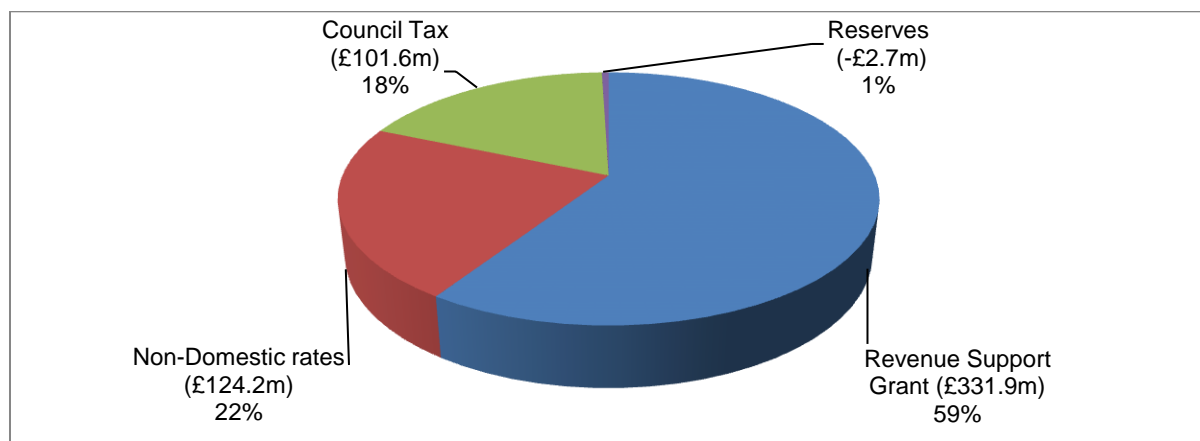
The Council spent £555.032m (2013/14 £545.810m) on the provision of General Fund services in the year.

Revenue outturn 2014/15



Funding

Funding for the provision of General Fund services came from the following sources.



The financial results for the General Fund services for the year are presented 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 2014/15 results against budget, on the basis of the internal service analysis of the Council.

Collaboration and Joint Working

2015/16 will be the third year of the Council's partnership with NHS Highland to deliver integrated health and care services for all age groups. Budgets are now on a much more stable footing, although significant pressures remain, particularly in Adult Care where a combination of additional needs, demographic increases, pay and cost pressures, and staff recruitment challenges in parts of the Highlands all place pressures on services and service delivery. Further work is required around governance and delivery of outcomes. During the past year a great deal of focus has been in ensuring that the Partnership Agreement, as originally drafted, now meets the legislative requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 which came into force in April 2015 with the repealing of the Community Care and Health (Scotland) Act 2002. The Cabinet Secretary for Health, Wellbeing and Sport approved the Highland Integration Scheme in June 2015.

Other on-going initiatives include

- Police Scotland - collaboration on shared premises
- Children's Panel - Single Area Support Team for Highland and Moray Children's Panels
- Pathfinder North - collaborative programme delivering broadband services across five local authority areas across the Highlands and Islands
- Business Gateway - shared service arrangement with Moray Council
- Highland Housing Register - partnership with registered social landlords
- Customer Services - shared service arrangements with Registration Services, libraries, Visit Scotland and the Passport Office

General Fund Services 2014/15

	Budget £m	Actual £m	Over/(Under) £m
Care and Learning	383.678	383.646	(0.032)
Chief Executive's Office	6.649	6.497	(0.152)
Corporate Development	18.068	18.008	(0.060)
Community Services	61.804	61.410	(0.394)
Development and Infrastructure	12.652	12.551	(0.101)
Finance Service	11.790	11.779	(0.011)
Housing Benefit	0.120	(0.346)	(0.466)
Discretionary Housing Payments	0.910	0.909	(0.001)
Scottish Welfare Fund Grants	0.801	0.917	0.116
Advice Services	1.564	1.545	(0.019)
Nairn Common Good (Sandown)	0.187	0.187	-
	498.223	497.103	(1.120)
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2.380	2.258	(0.122)
Highland and Islands Transport Partnership	0.091	0.091	-
Non Domestic Rate Relief	0.606	0.690	0.084
Loan Charges	57.735	55.230	(2.505)
Interest and Investment Income	(0.180)	(0.340)	(0.160)
Total General Fund Services	558.855	555.032	(3.823)
Appropriations to/from Reserves			
Repairs & Renewals Fund	(0.007)	0.042	0.049
Insurance Fund	0.374	0.374	-
Affordable Housing	2.600	2.529	(0.071)
Amount to be funded from Taxpayers and General Fund Balance	561.822	557.977	(3.845)
Funding			
Revenue Support Grant	(331.930)	(331.930)	-
Non-domestic Rates	(124.210)	(124.211)	(0.001)
Council Tax	(99.551)	(101.626)	(2.075)
	(555.691)	(557.767)	(2.076)
Use of General Fund in the year	6.131	0.210	(5.921)

Most services delivered outturn positions under budget. Significant variances from budget were as follows:

1. The Chief Executive's Office shows an underspend of £0.152m which is mainly attributable to vacancy management and reduced spend in discretionary budgets
2. Community Services shows an underspend of £0.394m due mainly to planned slippage on the Roads Innovation fund. Overspends on winter maintenance, street lighting, grounds maintenance, homelessness, vehicle maintenance and a shortfall in income at piers and harbours, and car parking were offset by underspends on flood alleviation, refuse collection and building maintenance. Additional underspends arose on staff costs as a result of vacancy management and reduced overtime.
3. Development and Infrastructure Service shows an underspend of £0.101m due mainly to one-off grant income and increased planning and building warrant income.
4. The Care and Learning Service delivered a near balanced outturn position. Significant overspends on Looked After Children, school transport and property repairs and servicing contracts were offset by the early achievement of an approved budget saving in relation to adult care homes and underspends arising from the management of vacant posts across the service.
5. The budget for Loan Charges has a year end underspend of £2.505m due to continued favourable short term interest rates and the delayed need for borrowing.

Balance Sheet

The Balance Sheet on pages 36 and 37 summarises the assets and liabilities of the Council as at 31 March 2015 with explanatory notes commencing on page 40. Total net assets have increased by £106.293m to £988.963m. Included in this movement are changes in both asset values and liabilities. Property, plant and equipment have increased by £151.487m and investments have decreased by £8.997m. The pensions liability has increased by £25.720m and borrowing and lease finance have increased by £16.474m. These changes are explained below.

Property, plant and equipment have increased in value by £151.487m to £2,235.455m. This increase is due to a combination of capital investment and the revaluation of some assets under the 5 yearly valuation programme. Heritage assets of £8.537m have been brought on to the Balance Sheet. Investments have decreased by £8.997m and short term borrowing has decreased by £11.724m while long term borrowing has increased by £32.406m. Long term borrowing is required to finance the Council's Capital Programme and is taken in preference to or to replace short term borrowing when rates are considered most advantageous in accordance with the Treasury Management Strategy Statement

The Council is required to account for its share of the Highland Council pension Fund assets and liabilities. The information included in the accounts is provided by the Pension Fund actuaries following the annual valuation of the fund. The position at 31 March 2015 indicates a net liability of £418.069m compared to £392.349m as at 31 March 2014. This liability is a snapshot position as at the year end date. Employers contributions are set by the actuary at each triennial valuation of the Fund with the next valuation due to be completed as at 31 March 2015 for contributions for 2015/16 to 2017/18.

The Council's annual Treasury Management Strategy outlines the policy in relation to borrowing and investment. This is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from PWLB and market loans. Further details are provided in note 46.

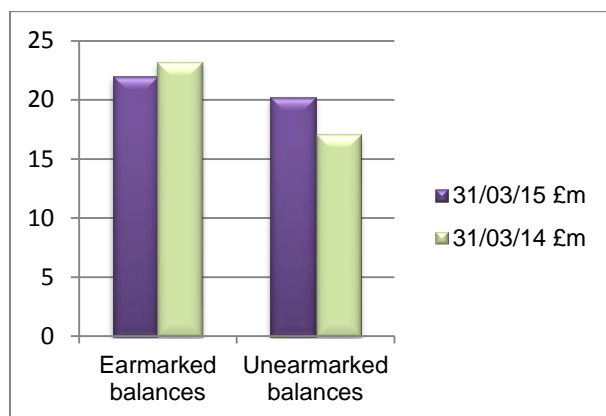
The Council has made provision for a number of eventualities which may have a material effect on its financial position. Details are given in note 41.

The net assets of £988.963m are matched by usable reserves of £86.896m and unusable reserves of £902.067m.

General Fund balance

The Council holds General Fund balances to meet contingencies and for specific initiatives. Within the General Fund certain balances are earmarked to be held for specific purposes, for example grants received and unspent at the year end or specific Council decisions to set aside balances for specific purposes.

Balances in the General Fund were as follows:



The movement on the General Fund in the year was as follows:

	Earmarked balances £m	Unearmarked balances £m	General Fund Total £m
At 1 April 2014	23.206	17.134	40.340
Net use of balances	-	(0.210)	(0.210)
Net transfer from earmarked balances	(3.275)	3.275	-
Transfer from Capital Fund	2.110	-	2.110
At 31 March 2015	22.041	20.199	42.240

A transfer was made from the Capital Fund to earmarked balances within the General Fund following a reclassification of developers contributions received in advance.

Details of movement on earmarked balances are included in note 6 to the accounts.

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 £14.3m, 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.

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 2014/15 results against budget.

	Note	Budget £m	Actual £m	Over/ (under) £m
Staff costs	1	4.523	4.281	(0.242)
Other costs	2	27.038	28.150	1.112
Loan charges and interest		17.347	16.732	(0.615)
		48.908	49.163	0.255
Income	3	(48.908)	(49.163)	(0.255)
		-	-	-

1. Staff costs were under budget due to staff vacancies and reduced standby costs in the year.
2. Other costs exceeded budget due to increased repair costs and support charges.
3. Income exceeded budget due to an increase in other recharges in the year.

Financial Indicators

The following financial indicators have been developed to provide an indication of the affordability of the Council's financial plans:

Indicator	2014/15	2013/14	
Uncommitted General Fund Reserve as a percentage of annual budgeted net expenditure	3.54%	3.00%	A measure of the level of funding available to manage financial risk/unplanned expenditure
(Deficit)/surplus transferred (from)/to the General Fund	(£0.210)m	£2.540m	Shows the amount by which the council has (decreased)/increased the General Fund balance
Council Tax - in year collection rate	95.49%	95.49%	A measure of the effectiveness of the Council in collecting Council Tax debt
Council Tax income as a percentage of overall funding	18.22%	18.16%	This reflects the capacity of the Council to vary expenditure by raising Council Tax Income
Actual outturn as a percentage of budget	99.33%	99.27%	A measure of how the final outturn compares to the budgeted position and is a reflection of the effectiveness of financial management
(Decrease)/Increase in uncommitted General Fund balance	(£3.065)m	(£0.985)m	Shows the extent to which the Council has decreased/(increased) its uncommitted General Fund balance
Capital Financing Requirement	£408.201m	£383.170m	Measurement of requirement to borrow for capital purposes
External debt levels	£764.997m	£747.033m	Actual borrowing for capital investment purposes

Group Accounts

The Council has interests 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.

The Group Accounts show an overall group pension liability of £422.110m. These liabilities fall due in future years and will be financed by future years' annual pension contributions and returns on investments.

By including the share of group entities the effect on the group balance sheet is an increase in net assets and reserves of £32.923m.

The financial results for the Group are summarised below:

2013/14 £m		2014/15 £m
<u>56,033</u>	Total comprehensive Income and Expenditure	<u>105,177</u>
<u>916,709</u>	Balances – usable and unusable reserves	<u>1,021,886</u>

Provisions and contingencies

The Council is not aware of any eventualities which may have a material effect on the financial position which have not been provided for in the accounts.

Details of contingent liabilities and assets are presented in note 43 to the accounts.

Net Pension Position

Council employees are entitled to join the Local Government Pension Scheme (LGPS) which is a defined benefit scheme requiring an annual actuarial assessment of the Council's overall assets and liabilities which are included in the Annual Accounts. The disclosure requirements for pension benefits under IAS19 are detailed at Note 24. The appointed actuaries have confirmed a net deficit position of £418.069m, a deterioration of £25.720m in their assessment of the position of the pension fund. The net deficit position of the pension reserve impacts on the net asset position of Highland Council as a whole. The appointed actuaries remain of the view that the asset holdings of the Pension Fund and the contributions from employees and employers together with planned increases in employers contributions provide sufficient security and income to meet future pension liabilities as they arise.

Teachers are entitled to join the Scottish Teachers' Superannuation Scheme which is a defined contribution scheme and the Annual Accounts show the amounts contributed by the Council to the scheme in the year.

Capital Programme

The Council's General Fund capital programme reflects capital expenditure on non-public sector housing, improvements to schools, health and social care facilities, waste treatment facilities, roads, bridges, piers, sports centres and plant and equipment including IT and vehicles.

During 2014/15 the major projects in the Care and Learning programme included the construction of schools in Fort William, Wick and Inverness, as well as the refurbishment of Lochaber High School. There was also major investment in the Council's offices in Wick, the River Ness Flood Prevention measures and the purchase of Osprey House.

The Housing Revenue Account programme invested £43.2m in Council house stock during the year. The capital programme is based on the attainment of the Scottish Housing Quality Standard and also to deliver a programme of new build Council housing.

All services delivered outturns under budget in the capital programme as follows:

	Net Expenditure		
	Budget £m	Actual £m	Underspend £m
General Fund			
Care and Learning	54.960	53.952	(1.008)
Chief Executive's Office	0.721	0.648	(0.073)
Community Services	12.401	8.985	(3.416)
Corporate Development	1.614	0.685	(0.929)
Development and Infrastructure	44.843	38.082	(6.761)
Carbon CLEVER	0.050	-	(0.050)
Discretionary Fund	2.000	-	(2.000)
	<u>116.589</u>	<u>102.352</u>	<u>(14.237)</u>
 Housing Revenue Account	 51.534	 43.240	 (8.294)

Underspends have arisen mainly due to slippage on projects including schools in Care and Learning, vehicle and plant purchases in Community services and the River Ness Flood Scheme and other projects in the Development and Infrastructure Service. Slippage on priority projects will be carried forward to allow these projects to continue to completion.

Financial Outlook and Risks

The Council has a multi-year budget approach and has commenced the process of identifying savings proposals for financial years 2016/17 to 2018/19 as part of a strategy to move to a five year budget cycle commencing in 2014/15. These proposals amount to £25.0m, and were agreed by the Highland Council in December 2014, however at this stage a residual budget gap of £13.2m remained to be considered during 2015/16. The Council faces significant challenges both in delivering the approved savings package agreed in December 2014 and in identifying and delivering additional savings.

This budget gap will increase significantly in light of additional financial risks that have now been quantified. Additional funding requirements for pay, teachers' pensions, and national insurance, together with assumed cash reductions in grant, are estimated to increase the budget gap to £46.3m. This will place significant additional pressure on budgets and require further savings to be achieved. The Scottish Government's current policy on protecting teacher numbers further reduces the flexibility available to the Council to balance its budget.

The main focus now has to be identifying savings, equivalent to 6% of existing budgets, to achieve a balanced budget for 2016/17 and services are currently considering options to meet this target. The budget gap remains an estimate for planning purposes, and the actual budget gap will only be known when government grant figures are announced by the Scottish Government. The Government's position on maintaining a council tax freeze and maintaining teacher numbers are a material factor in the Council's own financial planning.

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 impact of the results of the UK General Election and discussions around the Scotland Bill are unknown at this stage, but the UK Government has already announced further austerity measures that may reduce the level of funding available. The Scotland Bill gives the Scottish Government further tax raising powers which could be used to increase tax revenues. In addition the Scottish Government has established a Commission that will report in autumn 2015 reviewing options for local taxation, and this may have wider ramifications for the way in which the Council is funded.

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 comes into effect. Presently the Council does not expect to receive notification of its grant from the Scottish Government for 2016/17 until January 2016, and it is not known whether this announcement will be for 2016/17 only, or will cover future years. This makes medium and long term financial planning more critical to ensure that the Council has the necessary information in order to make appropriate decisions about service levels and priorities. However the absence of any information about the level of the major proportion of the Council's funding creates significant uncertainty, and makes financial planning extremely difficult with the potential for significant change to existing financial projections.

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.

Acknowledgement

Finally we would like to express our thanks to elected members, the Executive Leadership Team, Colleagues across the Council and in particular to the accounting and finance teams for their support throughout the year and the effort involved in the preparation of the annual accounts.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
30 September 2015

Steve Barron
Chief Executive
30 September 2015

Margaret Davidson
Leader of the Council
30 September 2015

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL 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 the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). 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.
- (iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- (iv) Approve the Annual Accounts for signature

I confirm that these Annual Accounts were approved for signature by the Audit and Scrutiny Committee at its meeting on 30 September 2015.

Signed on behalf of Highland Council

Margaret Davidson

Leader of the Council
30 September 2015

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code).

In preparing this Annual 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 legislation
- (iv) complied with the local authority Code (in so far as is compatible with legislation).

The Director of Finance has also:-

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2015.

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

Director of Finance
30 September 2015

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on our website.

The Local Code of Corporate Governance evidence's the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

The Purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2015 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code is based upon the following six principles:

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

In 2014/15 a number of actions were carried forward for completion: delivery of all efficiency savings from the Corporate Improvement Programme (CIP) relating to the overall Programme, 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 £0.700m from the Business Support Project (Corporate Improvement Programme) and these have not all been delivered in 2014/15. The Communications Strategy has been completed and reported to Committee.

Review of Effectiveness

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.

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 Head of Audit and Risk Management, reports annually to the Audit and Scrutiny Committee on the adequacy and effectiveness of the Local Code and the extent of compliance with it. The annual review of the 2014/15 Code of Corporate Governance was reported to Audit & Scrutiny Committee in March 2015, and provides the audit opinion of "Full Assurance".

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (the Standards). 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 Audit and Risk Management's responsibilities in this regard were discharged through the presentation of the Statement of Internal Control and Annual Report 2014/15 to the Audit and Scrutiny Committee on 18 June 2015.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The 2013/14 Statement of Internal Control and Annual Report referred to 6 high grade actions due to be implemented during that year that were only been partially addressed.

As a result, the Head of Audit & Risk Management wrote to all Directors and Service administrators of the Performance and Risk Management system (PRMS) and reminded them of the following:

- 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 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.

There has been some improvement from the position reported last year. However, 5 of the 19 high grade actions were not implemented by their due date during 2014/15. Although explanations have

now been provided for the various delays, in some cases, no extensions of time were requested in accordance with the above procedure. It is also apparent that the monitoring of actions also requires further improvement. This matter was again raised with the Executive Leadership Team on 16 June 2015 who were asked to ensure that audit actions are properly recorded and monitored and, if actions are delayed, these are brought to the attention of the Head of Audit and Risk Management in order that he may consider revising the implementation dates. Furthermore, The Chief Executive has asked that any concerns are escalated to him.

Despite the above issues, on the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2015.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Scrutiny Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Significant Governance Issues

The following issues have arisen as a result of the 2014/15 audit:

- As part of the Highland Council Pension Fund audit, it was noted that two payments had been made from the Highland Council bank accounts rather than Pension Fund bank accounts. This error occurred as a result of an oversight when separating the Highland Council and Pension Fund bank accounts.
- Work on the intercompany account with the Pension Fund continued during the year and was still on going at the year end.
- In response to the concern raised by Audit Scotland about a rent debtor figure contained within the 2014/15 HRA, an Internal Audit investigation was undertaken to establish how the incorrect reconciliation of information within the HRA had arisen. The results of this work was reported on 9 June 2015 and the audit opinion provided was "No Assurance". An action plan was agreed to address the areas of concern identified by Internal Audit and this will be followed up in the normal manner.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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

Inverness and Nairn Common Good Funds

- a review of governance procedures surrounding rental income in Nairn Common Good fund concluded that there were significant weaknesses in internal control and governance of lease agreements, which resulted in loss of rents to the value of £0.187m. A report provided to Nairn and Badenoch & Strathspey Committee provided assurances that improved governance measures have been provided, but it is critical to ensure that these assurances have been delivered.

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.

Margaret Davidson
Leader of the Council
30 September 2015

S Barron
Chief Executive
30 September 2015

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

INDEPENDENT AUDITOR'S REPORT

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2015 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, Cash Flow Statements, authority-only Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, 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 2014/15 (the 2014/15 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 Annual 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 circumstances of the authority and its group 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 Annual 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 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority 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 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, 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 2014; and
- the information given in the Management Commentary 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 Annual Governance Statement has not been prepared in accordance 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 (Audit Services)

Audit Scotland

4th Floor, South Suite

The Athenaeum Building

8 Nelson Mandela Place

Glasgow

G2 1BT

30 September 2015

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 2014/15 the remuneration for the Leader of Highland Council is £38,642. The regulations permit the Council to remunerate a Civic Head. The Civic Head role in Highland Council is the Convener in 2014/15. 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. £28,982. 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 £432,643 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 2014/15 for all councillors was £1,476,977. 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 http://www.highland.gov.uk/meetings/meeting/1236/highland_council

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 2014-15

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.

2013-14 (restated)					2014-15		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
28,694	-	28,694	David Alston	Depute Leader of the Council from 17.05.12 (£28,982)	28,982	-	28,982
38,259	-	38,259	Andrew Hendry	Leader of the Council (£38,642)	38,642	1,908	40,550
28,694	-	28,694	Jimmy Gray	Convener of the Council (£28,982)	28,982	-	28,982
20,162	-	20,162	Andrew Millar	Chair of Community Safety, Public Engagement & Equalities (£20,364)	18,769	-	18,769
18,948	-	18,948	Hamish Fraser	Chair - Gaelic Implementation Group & Leader Skye, Ross & Cromarty (£24,972)	24,972	1,349	26,321
20,162	-	20,162	Margaret Davidson ¹	Chair of Audit & Scrutiny (£20,364)	20,364	-	20,364
24,725	-	24,725	Alasdair Christie	Chair of Adult and Children's Services (£24,972)	24,972	-	24,972
24,725	-	24,725	Carolyn Wilson	Leader of the Opposition (£24,972)	23,774	-	23,774
20,162	6,629	26,791	Linda Munro	Champions' Coordinator and Children's Champion (£20,364)	20,364	2,703	23,067
24,725	2,486	27,211	David Fallows	Chair of Resources Committee to 08.05.14 and Pensions Committee (£24,972)	17,442	371	17,813
24,725	-	24,725	Ian Brown	Leader - Inverness City and Area from 13.08.12 (£24,972)	24,972	-	24,972

¹ Margaret Davidson was appointed Leader of the Council following the formation of a new administration on 11th June 2015.

2013-14 (restated)					2014-15		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
20,162	4,478	24,640	George Farlow	Vice Chair of Planning, Environment and Development (£20,364)	20,364	2,423	22,787
21,923	-	21,923	Elizabeth Macdonald	Leader for Nairn, Badenoch & Strathspey (£24,972)	24,972	-	24,972
24,725	-	24,725	Deirdre Mackay	Leader – Caithness and Sutherland (£24,972)	24,972	3,197	28,169
20,162	-	20,162	Elizabeth McAllister	Vice Chair of Community Services (£20,364)	20,364	-	20,364
24,725	2,782	27,507	Graham Phillips	Chair of Community Services to 08.05.14 (£24,972)	17,442	215	17,657
24,725	337	25,062	Thomas Prag	Chair Planning, Environment and Development (£24,972)	24,972	249	25,221
20,162	-	20,162	Maxine Smith	Chair of Resources Committee from 09.05.14 and Chair of Licensing Committee and Chair of Licensing Board (£20,364)	24,489	-	24,489
19,243	99	19,342	Graham Mackenzie	Vice Chair Adult & Children Services to 08.05.14 then Chair Community Services from 09.05.14 (£20,364)	24,489	80	24,569
21,389	-	21,389	Thomas MacLennan	Leader Lochaber Area Committee (£24,972)	24,972	-	24,972
20,497	-	20,497	Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board (£20,702)	20,702	-	20,702

Full year equivalent salary is shown in brackets.

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

2013-14					2014-15		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Councillor	Board Recharged	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
4,101	-	4,101	Helen Carmichael, Convenor (£20,702)	Highland and Western Isles Valuation Joint Board	4,142	-	4,142

Full year equivalent salary is shown in brackets

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

Members' allowances and expenses

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

2013/14 £000		2014/15 £000
1,447	Remuneration	1,477
253	Travel and Subsistence	224
37	All other expenses	36
1,737	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 2015. 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 Director of Corporate Development, as Depute Chief Executive, receives a 10% responsibility payment in addition to the Director's salary.

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.

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2013-14					2014-15	
Salary, fees and allowances	Compensation for Loss of Office	Total Remuneration	Senior Employee	Position	Salary, fees and allowances	Total Remuneration
106,503	-	106,503	William Alexander	Director of Health and Social Care (£107,568)	107,568	107,568
131,830	-	131,830	Steve Barron	Chief Executive** (£142,926)	158,421	158,421
106,503	-	106,503	Stuart Black	Director of Development & Infrastructure (£107,568)	107,568	107,568
59,198	-	59,198	Alistair Dodds	Chief Executive to 31.08.13* (£141,513)	-	-
106,503	-	106,503	Hugh Fraser	Director of Education Culture and Sport (£106,503)	53,990	53,990
106,503	-	106,503	Derek Yule	Director of Finance (£107,568)	107,568	107,568
88,753	77,105	165,858	Neil Gillies	Director of Transport, Environmental and Community Services to 31.01.14 (£106,503)	-	-
	Plus Annual Compensation of £5,976					
110,378	-	110,378	Michelle Morris	Depute Chief Executive (£118,325)	118,325	118,325
78,584	-	78,584	William Gilfillan	Director of Community Services from 01.02.14 (£107,568)	107,568	107,568
79,581	-	79,581	Ian Murray	Chief Executive, High Life Highland (£79,581)	79,581	79,581

Full year equivalent salary is shown in brackets

No taxable expenses were paid in 2014/15 or 2013/14

No Compensation for Loss of Office payments were made in 2014/15

*includes £234; paid to the former Chief Executive in his role as Returning Officer for the local by-election in May 2013.

** 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.

2014-15: includes £8,645 (75%) paid to the Chief Executive in his role as Counting Officer for the Referendum on Scottish Independence; £234 paid in his role as Returning Officer for the local by-election; and £6,616 paid in his role as Returning Officer for the European Election.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2014-15	2013-14
50,000 - 54,999	154	84
55,000 - 59,999	51	33
60,000 - 64,999	21	18
65,000 - 69,999	5	9
70,000 - 74,999	15	11
75,000 - 79,999	-	2
105,000 - 109,999	4	4
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 2014/15 figures are 7 employees who were members of the Highland Council Pension Fund (2013/14 8) the gross actuarial cost of these exit packages is £0.536m (2013/14 £0.470m) and the net savings from these severance packages, on an actuarial basis are £1.553m (2013/14 £0.570m).

Number of Employees 2013/14	Total Cost 2013/14 £	Cost Band	Number of Employees 2014/15	Total Cost 2014/15 £
11	96,201	£0 - £20,000	12	70,245
5	137,565	£20,001 - £40,000	1	31,007
2	99,681	£40,001 - £60,000	1	52,079
1	78,632	£60,001 - £80,000	1	65,414
2	184,785	£80,001 - £100,000	1	81,351
2	245,382	£100,001 - £150,000	1	103,881
-	-	£150,001 - £200,000	3	493,685
1	266,806	£250,001 - £300,000	-	-
24	1,109,052	Total	20	897,662

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 Resources Committee
Chair of Adult and Children's Services Committee
Vice-Chair of Adult and Children's Services Committee
Chair of Planning, Development & Infrastructure Committee
Vice-Chair of Planning, Development & Infrastructure Committee
Chair of Community Services Committee
Vice-Chair of 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

A new administration was formed at a Highland Council meeting on 11th June 2015, when appointments to the above posts were made.

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).

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.

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.

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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 2014/15 contribution tiers and rates are as follows:

Whole time pay	Contribution rate 2014/15
On earnings up to and including £20,500	5.5%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.5%
On earnings above £34,400 and up to £45,800	9.5%
On earnings above £45,800	12%

2013/14 contribution tiers and rates

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%

In 2014/15 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 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th 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.

Senior Councillor Pension Benefits

The pension entitlements for Senior Councillors for the year to 31 March 2015 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				
		31.03.15	31.03.14		Accrued Pension Benefits as at 31.03.15	Difference from March 2014
		£	£		£000	£000
David Alston	Depute Leader of the Council	5,212	5,161	Pension: Lump Sum:	4 2	1 -
Andrew Hendry	Leader of the Council	6,950	6,881	Pension: Lump Sum:	11 26	- 1
Andrew Millar	Chair of Community Safety, Public Engagement and Equalities	3,432	3,626	Pension: Lump Sum:	3 2	- -
Hamish Fraser	Chair of Gaelic Implementation Group and Leader – Skye, Ross and Cromarty	4,491	3,040	Pension: Lump Sum:	1 -	1 -
Margaret Davidson	Chair of Audit & Scrutiny	3,662	3,626	Pension: Lump Sum:	3 2	- -
Alasdair Christie	Chair of Adult and Children's Services	4,491	4,447	Pension: Lump Sum:	2 -	- -
Carolyn Wilson	Leader of the Opposition	4,339	4,447	Pension: Lump Sum:	3 2	- -
Linda Munro	Champions' Coordinator and Children's Champion	3,662	3,626	Pension: Lump Sum:	2 1	- -
David Fallows	Chair of Resources and Chair Pensions Committee	3,262	4,447	Pension: Lump Sum:	2 2	- -
Ian Brown	Leader – Inverness City and Area	4,491	4,447	Pension: Lump Sum	2 2	- 1
George Farlow	Vice Chair of Planning, Environment and Development	3,662	3,626	Pension: Lump Sum	2 1	- -
Elizabeth Macdonald	Leader – Nairn, Badenoch & Strathspey	4,491	3,907	Pension: Lump Sum	4 7	- -
Elizabeth McAllister	Vice Chair of Community Services	3,662	3,626	Pension: Lump Sum	2 1	- -

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.15		Difference from March 2014
		31.03.15	31.03.14				
		£	£		£000	£000	
Graham Phillips	Chair of Community Services to 08.05.14	3,262	4,447	Pension: Lump Sum	1 -	- -	
Thomas Prag	Chair Planning, Environment and Development	4,491	4,447	Pension: Lump Sum	3 1	1 -	
Maxine Smith	Chair Resources Committee. Chair of Licensing Committee and Chair of Licensing Board	4,336	3,626	Pension: Lump Sum	1 -	1 -	
Graham Mackenzie	Vice Chair Education, Adult & Children Services to 08.05.14 then Chair Community Services from 09.05.14	4,336	1,040	Pension: Lump Sum:	1 -	- -	
Thomas MacLennan	Leader - Lochaber Area	4,491	1,137	Pension: Lump Sum	1 -	- -	
Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board	3,723	1,126	Pension: Lump Sum:	3 2	1 -	
	Total	80,446	70,730	Pension: Lump Sum:	51 51	5 1	

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 2015 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 31.03.15	Difference from March 2014
		31.03.15	31.03.14			
		£	£		£000	£000
William Alexander	Director of Health and Social Care	19,362	19,171	Pension: Lump Sum:	49 114	3 1
Steve Barron	Chief Executive	25,727	23,645	Pension: Lump Sum:	54 119	7 10
Stuart Black	Director of Development & Infrastructure	19,362	19,171	Pension: Lump Sum:	42 94	2 1
Alistair Dodds	Chief Executive to 31.08.13	-	10,613	Pension: Lump Sum:	- -	- -
Hugh Fraser	Director of Education Culture and Sport retired 30.09.14	-	19,171	Pension: Lump Sum:	- -	- -
Derek Yule	Director of Finance	19,362	19,171	Pension: Lump Sum:	49 116	2 3
Neil Gillies	Director of Transport, Environmental and Community Services to 31.01.14	-	15,975	Pension: Lump Sum:	- -	- -
Michelle Morris	Depute Chief Executive	21,298	19,868	Pension: Lump Sum:	36 73	4 5
William Gilfillan	Director of Community Services from 01.02.14	19,362	14,145	Pension: Lump Sum:	37 79	11 21
Ian Murray	Chief Executive, High Life Highland	14,935	14,325	Pension: Lump Sum:	36 84	2 3
	Total	139,408	175,255	Pension: Lump Sum	303 679	31 44

Margaret Davidson
Leader of the Council
30 September 2015

Steve Barron
Chief Executive
30 September 2015

MOVEMENT IN RESERVES STATEMENT 2013/14

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.

	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

MOVEMENT IN RESERVES STATEMENT 2014/15

	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 2014	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670
Movement in reserves during 2014/15									
Surplus/(deficit) on provision of services (accounting basis)	5,882	4,252	-	-	-	-	10,134	-	10,134
Other comprehensive income and expenditure	-	-	-	-	-	-	-	96,159	96,159
Total comprehensive income and expenditure	5,882	4,252	-	-	-	-	10,134	96,159	106,293
Adjustments between accounting basis and funding basis under regulations (note 5)	(2,196)	(4,252)	317	-	-	-	(6,131)	6,131	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,686	-	317	-	-	-	4,003	102,290	106,293
Transfers to/from other statutory reserves	(1,786)	-	-	42	375	(1,072)	(2,441)	2,441	-
Increase/(decrease) in 2014/15	1,900	-	317	42	375	(1,072)	1,562	104,731	106,293
Balance at 31 March 2015	42,240	7,328	2,202	1,711	2,784	30,631	86,896	902,067	988,963

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.

2013/14				2014/15			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
262,610	(9,990)	252,620	Education services		282,132	(10,552)	271,580
74,206	(60,709)	13,497	Housing services		88,072	(79,755)	8,317
43,782	(47,678)	(3,896)	Council Housing – Housing Revenue Account		43,121	(48,183)	(5,062)
29,480	(2,523)	26,957	Cultural and related services		29,440	(2,855)	26,585
68,231	(31,820)	36,411	Environmental services		75,809	(31,273)	44,536
83,577	(37,527)	46,050	Roads and transport services		81,131	(38,064)	43,067
20,521	(14,151)	6,370	Planning and development services		18,553	(10,959)	7,594
142,990	(13,400)	129,590	Social work services		151,289	(13,467)	137,822
12,539	(19,495)	(6,956)	Central Services to the public		16,898	(17,266)	(368)
			Joint board requisitions				
2,100	-	2,100	Northern Joint Police Board		-	-	-
33	-	33	Highland and Islands Fire Board		-	-	-
2,345	-	2,345	Highland and Western Isles Valuation Joint Board		2,258	-	2,258
89	-	89	Highland and Islands Transport Partnership		91	-	91
10,647	(29)	10,618	Corporate and democratic core	7	10,450	(70)	10,380
3,842	-	3,842	Non Distributed Costs	8	3,615	-	3,615
756,992	(237,322)	519,670	Cost of services carried forward		802,859	(252,444)	550,415

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2013/14			Note	2014/15		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
756,992	(237,322)	519,670		802,859	(252,444)	550,415
		Cost of services brought forward				
	216	Other operating expenditure	9			1,388
	58,328	Financing and investment income and expenditure	10			62,210
	(575,538)	Taxation and non-specific grant Income	11			(624,147)
	2,676	Deficit/(surplus) on provision of services				(10,134)
	9,061	Deficit/(surplus) on revaluation of non-current assets				(91,539)
	39,294	Remeasurements of the net defined liability				(4,620)
	48,355	Other comprehensive income and expenditure				(96,159)
	51,031	Total comprehensive income and expenditure				(106,293)

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'.

31/03/14 £000		Notes	31/03/15 £000
2,083,968	Property, plant and equipment	28	2,235,455
-	Heritage assets	35	8,537
80	Long term intangible assets		-
1,061	Long term investments	36	1,118
41,314	Long term debtors (net of impairment)	38	45,417
<u>2,126,423</u>	Long term assets		<u>2,290,527</u>
-	Short term intangible assets	33	632
31,092	Short term investments	45	22,038
5,551	Inventories	37	3,271
51,761	Short term debtors	39	42,923
41,509	Cash and cash equivalents	45	42,784
989	Assets held for sale	34	3,914
<u>130,902</u>	Current assets		<u>115,562</u>
(56,316)	Short term borrowing	45	(44,592)
(100,916)	Short term creditors	40	(98,187)
(1,224)	Provisions	41	(1,364)
(5,054)	Capital Grant Receipts in Advance		(7,919)
<u>(163,510)</u>	Current liabilities		<u>(152,062)</u>
(694,565)	Long term borrowing	45	(726,971)
(516,580)	Other long term liabilities	42	(538,093)
<u>(1,211,145)</u>	Long term liabilities		<u>(1,265,064)</u>
<u>882,670</u>	Net assets		<u>988,963</u>

BALANCE SHEET (CONTINUED)

31/03/14 £000		Notes	31/03/15 £000
1,885	Capital Receipts Reserve		2,202
1,669	Renewal and Repair Fund		1,711
31,703	Capital Fund		30,631
2,409	Insurance Fund		2,784
40,340	General Fund		42,240
7,328	Housing Revenue Account		7,328
85,334	Usable reserves	12	86,896
353,235	Revaluation Reserve		438,165
(392,349)	Pensions Reserve		(418,069)
878,289	Capital Adjustment Account		922,107
(33,075)	Financial Instruments Adjustment Account		(31,052)
(8,764)	Employee Statutory Adjustment Account		(9,084)
797,336	Unusable reserves	13	902,067
882,670	Total reserves		988,963

The unaudited Annual Accounts were issued on 22 June 2015 and the audited Annual Accounts were authorised for issue on 30 September 2015.

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

Director of Finance

30 September 2015

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.

2013/14		Notes	2014/15
£000			£000
(2,676)	Net (deficit)/surplus on the provision of services		10,134
62,342	Adjust net (deficit)/surplus on the provision of services for non-cash movements	14	105,354
(22,679)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(66,059)
<u>36,987</u>	Net cash inflow from operating activities	15	<u>49,429</u>
(134,463)	Investing activities	16	(135,214)
75,192	Financing activities	17	87,060
<u>(22,284)</u>	Net increase or decrease in cash and cash equivalents		<u>1,275</u>
63,793	Cash and cash equivalents at 1 April 2014		41,509
<u>41,509</u>	Cash and cash equivalents at 31 March 2015	18	<u>42,784</u>

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1. Accounting policies

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.

General principles

The Annual Accounts summarises the transactions of the Council for the financial year 2014/15 and its financial position at 31 March 2015. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. 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 2014/15 (The Code) and the Service reporting code of practice for local authorities 2014/15 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual 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.

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.

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. The scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), 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 allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Charges to revenue for non-current assets

Services, support services and trading account 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, i.e. 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 Annual Accounts are 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 Annual Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are 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 Annual Accounts.

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 Capital Grants in Advance. 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 – 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 (i.e. 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 (i.e., freehold land and certain Community Assets) and assets that are not yet available for use (i.e., 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

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include various works of art and museum collections.

The museum collections owned by the Council are curated by museum staff at two principal museum facilities; The Highland Folk Museum, Newtonmore and Inverness Museum and Art Gallery.

- The core collections of the Highland Folk Museum, an open air living facility, number circa 10,000 items, mainly representing Highland rural culture from the 1700s to the present day. These items of vernacular, social, personal, domestic and working life origin range from furniture to farm machinery. The museum's interpretation programs are further aided by similarly themed non-accessioned 'working collections' of indeterminate number, specifically acquired for practical, often hands on interpretive use.
- The Inverness Museum and Art Gallery collections are mixed, representing both the natural and human history of Inverness and the Highlands. In addition to an indeterminate number of archaeological finds, there are in excess of 9,000 items relating to social and domestic history, textiles and costumes, arms and armour, trades and crafts, Jacobites, maps, archives and paper ephemera, fine art, numismatic and applied art. There are a further circa 35,000 natural sciences specimens, mineralogy, palaeontology, invertebrate zoology, vertebrate zoology and botany items. The museum also holds a bust of Sir John Gordon by Edme Bouchardon, which has an insurance value of £1.4m.

Museum collections and works of art and civic regalia are reported on the Balance Sheet at insurance valuation, and are updated annually.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairments.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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 2015/16 Code effective from 1 April 2015. There is therefore no impact on the 2014/15 financial statements.

IFRS 13 Fair Value Measurement
Annual Improvements to IFRSs (2011-2013 Cycle)
IFRIC 21 Levies

The issues included in the Annual Improvements to IFRSs 2011-2013 cycle are:

IFRS 1 Meaning of Effective IFRSs
IFRS 3 Scope Exceptions for Joint Ventures
IFRS 13 Scope of Paragraph 52 (Portfolio Exception)
IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

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 Annual 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 Annual Accounts contain 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 2015 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 £2.6m for every year that useful lives had to be reduced.
Provisions	The Council has made a provision of £0.379m 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 £0.038m.
Arrears	At 31 March 2015 the Council had a balance of sundry debtors of £13.010m. A review of balances suggested that an allowance for impairment of £3.323m 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.
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 24.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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.	<p>The indexation adjustment includes an efficiency factor which for 2014/15 resulted in indexation being applied to approximately 87% of the Unitary Charge.</p> <p>If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £23,130 in 2014/15.</p>
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.	<p>The indexation adjustment applies to 48% of the Unitary Charge as per the terms of the Project Agreement.</p> <p>If RPIX should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £97,682 in 2014/15.</p>

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.

2014/15	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 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	57,812	15,312	-	73,124	(73,124)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(59,692)	(10,387)	-	(70,079)	70,079	-
Net book value of asset disposals	1,267	2,406	-	3,673	(3,673)	-
Revenue expenditure funded by capital	3,699	-	-	3,699	(3,699)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(28,240)	(7,034)	-	(35,274)	35,274	-
Repayment of Finance Lease Creditors	(3,575)	-	-	(3,575)	3,575	-
Capital expenditure charged against the General Fund and HRA balances	(250)	(4,198)	-	(4,448)	4,448	-
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	(478)	(1,807)	2,285	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,968)	(1,968)	1,968	-

2014/15

	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	(1,507)	(516)	-	(2,023)	2,023	-
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	50,104	3,457	-	53,561	(53,561)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(21,722)	(1,499)	-	(23,221)	23,221	-
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	306	14	-	320	(320)	-
Total adjustments 2014/15	(2,196)	(4,252)	317	(6,131)	6,131	-

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 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	-

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)	-

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 2014/15.

	Balance at 1/04/13 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/14 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/15 £000
Developer's Contributions	-	-	-	-	-	(146)	2,150	13	2,017
Strategic Change and Development Fund	5,000	(1,471)	1,078	21	4,628	(1,138)	1,010	21	4,521
NHS Adult Care	-	-	3,500	-	3,500	(3,500)	-	-	-
IT Investment Fund	1,491	(315)	1,614	7	2,797	(604)	400	7	2,600
Devolved School Management	2,265	(436)	-	-	1,829	-	764	-	2,593
Grants and match funding	465	(372)	1,675	-	1,768	(610)	340	-	1,498
Business Rates Incentivisation Scheme	1,300	-	-	6	1,306	-	-	5	1,311
Road Maintenance 2014-15	2,000	(2,000)	1,250	-	1,250	(1,990)	740	-	-
Welfare Issues	-	-	1,166	-	1,166	(32)	-	5	1,139
Community Challenge Fund	1,000	-	-	5	1,005	(500)	-	4	509
Additional Support Needs	-	-	1,000	-	1,000	(1,000)	-	-	-
Pathfinder	-	-	823	-	823	(293)	-	3	533
Central Energy Efficiency Fund	752	(26)	-	4	730	(56)	-	3	677
Police Funding	3,913	(3,191)	-	-	722	-	-	-	722
Spend to Save Fund	696	(169)	-	3	530	-	-	-	530
Inverness Royal Academy Extension	151	-	-	1	152	-	-	1	153
Caithness Heat and Power Ltd	405	(405)	-	-	-	-	-	-	-
Future Change Implementation	285	(285)	-	-	-	-	-	-	-
Winter Maintenance	-	-	-	-	-	-	1,000	-	1,000
Discretionary Housing Payments	-	-	-	-	-	-	172	-	172
Baguigh Outdoor Centre	-	-	-	-	-	-	454	-	454
Early Years Investment Fund	-	-	-	-	-	-	1,126	-	1,126
Walks to Water	-	-	-	-	-	-	124	-	124
Developing the Young Workforce	-	-	-	-	-	-	362	-	362
Total	19,723	(8,670)	12,106	47	23,206	(9,869)	8,642	62	22,041

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.

2013/14		2014/15		
Net		Expenditure	Income	Net
£000		£000	£000	£000
6,791	Democratic representation and management	6,798	-	6,798
3,827	Corporate management	3,652	(70)	3,582
<u>10,618</u>	Total	<u>10,450</u>	<u>(70)</u>	<u>10,380</u>

8. Comprehensive Income and Expenditure Statement – Non distributed costs

Non distributed costs are excluded from individual services and comprise:

2013/14		2014/15
£000		£000
3,686	Pension fund charges for added years and early retirement	2,821
55	Pension fund past service contributions	810
101	Depreciation of non-operational properties	(16)
<u>3,842</u>		<u>3,615</u>

9. Comprehensive Income and Expenditure Statement – Other operating expenditure

2013/14		2014/15
£000		£000
216	Losses on the disposal of non-current assets	1,388

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

2013/14		2014/15
£000		£000
(88)	Gains on trading operations (note 20)	(96)
44,167	Interest payable and similar charges	46,332
14,692	Pensions net interest expense	16,358
(443)	Interest and investment income	(384)
<u>58,328</u>		<u>62,210</u>

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

2013/14 £000		2014/15 £000
(336,229)	Revenue support grant	(331,930)
(99,951)	Council tax income	(101,626)
(114,154)	Non-Domestic rates	(124,211)
(25,204)	Capital grants and contributions	(66,380)
<u>(575,538)</u>		<u>(624,147)</u>

12. Balance Sheet – usable reserves

31/03/14 £000		31/03/15 £000
1,885	Capital Receipts Reserve (a)	2,202
1,669	Renewal and Repair fund (b)	1,711
31,703	Capital fund (c)	30,631
2,409	Insurance fund (d)	2,784
40,340	General fund	42,240
7,328	Housing Revenue account	7,328
<u>85,334</u>		<u>86,896</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.

The movements in the capital fund are detailed below.

	Landbanking £000	Developers Contributions £000	Total £000
Balance at 31 st March 2014	29,593	2,111	31,704
Transfer to General Fund (earmarked)		(2,111)	(2,111)
Movement in year	1,038	-	1,038
Balance at 31st March 2015	30,631	-	30,631

(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

31/03/14 £000		31/03/15 £000
353,235	Revaluation Reserve (a)	438,165
878,289	Capital Adjustment Account (b)	922,107
(33,075)	Financial Instruments Adjustment Account (c)	(31,052)
(392,349)	Pensions Reserves (d)	(418,069)
(8,764)	Employee Statutory Adjustment Account (e)	(9,084)
797,336		902,067

(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.

2013/14 £000		£000	2014/15 £000
366,359	Balance at 1 April 2014		353,235
1,366	Adjustment to Opening Balance		-
<u>367,725</u>	Restated Opening Balance		<u>353,235</u>
1,336	Upward revaluation of assets	120,188	
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of services	(28,649)	
<u>(10,397)</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		
(9,061)	Difference between fair value depreciation and historical cost depreciation		91,539
(4,967)	Accumulated gains on assets sold or scrapped	(6,282)	
<u>(462)</u>	Amount written off to the Capital Adjustment Account	<u>(327)</u>	
<u>(5,429)</u>			<u>(6,609)</u>
<u>353,235</u>	Balance at 31 March 2015		<u>438,165</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.

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2013/14 £000			2014/15 £000
859,392	Balance at 1 April 2014		878,289
(1,366)	Adjustment to Opening Balance		-
858,026	Restated Opening Balance		878,289
(14,596)	Revenue Expenditure funded from capital under statute	(3,699)	
(933)	Non enhancing capital expenditure	-	
(47,008)	Charges for depreciation on non-current assets	(50,285)	
(8,008)	Revaluation losses on Property, Plant and Equipment	(22,839)	
(80)	Amortisation of Intangible Assets	(80)	
	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	(3,673)	
(3,791)			(80,576)
(74,416)	Adjusting amounts written out of the Revaluation Reserve	6,609	
5,429	Net written out amount of the cost of non-current assets consumed in the year		6,609
5,429			
	Capital Financing applied in the year		
3,468	Repayment of PPP creditors	3,575	
3,207	Use of the Capital Receipts Reserve to finance new capital expenditure	1,968	
39,547	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	70,079	
1,540	Use of the Capital Fund	2,441	
33,403	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	35,274	
8,085	Capital expenditure charged against the General Fund and HRA balances	4,448	
89,250			117,785
878,289	Balance at 31 March 2015		922,107

(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.

2013/14 £000			2014/15 £000
(35,097)	Balance at 1 April 2014		(33,075)
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)		14
57	Proportion of equivalent interest rate calculation on soft loans		57
(33,075)	Balance at 31 March 2015		(31,052)

(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.

2013/14		2014/15	
£000		£000	£000
(329,521)	Balance at 1 April 2014		(392,349)
(55,467)	Actuarial losses arising on changes in financial and demographic assumptions	(165,698)	
21,422	Return on plan assets	109,729	
(5,249)	Other experience adjustments	60,589	4,620
(39,294)	Total remeasurements of the net defined liability		
(46,283)	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	(53,561)	
22,749	Employer's pension contributions and direct payments to pensioners payable in the year	23,221	(30,340)
(23,534)			
(392,349)	Balance at 31 March 2015		(418,069)

(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.

2013/14		2014/15	
£000		£000	
(8,875)	Balance at 1 April 2014		(8,764)
8,875	Settlement or cancellation of accrual made at the end of the preceding year		8,764
(8,764)	Amounts accrued at the end of the current year		(9,084)
(8,764)	Balance at 31 March 2015		(9,084)

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

2013/14 £000		2014/15 £000
	Non-cash items	
54,248	Depreciation and impairments	73,203
216	Loss on sale of fixed assets	1,388
23,534	IAS 19 transactions	30,340
13	Financial instruments adjustments	382
	Items on accruals basis	
19	Decrease in inventories	2,280
1,747	Decrease in debtors	5,913
(15,333)	(Decrease)/increase in creditors	(8,291)
(2,102)	(Decrease)/increase In provisions	139
<u>62,342</u>		<u>105,354</u>

15. Cash flow statement – operating activities

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

2013/14 £000 (restated)		2014/15 £000
<u>(340)</u>	Interest received	<u>(305)</u>
<u>57,373</u>	Interest paid	<u>46,375</u>

16. Cash flow statement – investing activities

2013/14 £000		2014/15 £000
(115,919)	Purchase of property, plant and equipment	(143,368)
(2,949)	Other payments for investing activities	(6,020)
-	Purchase of short term intangibles	(632)
3,942	Proceeds from the sale of property, plant and equipment	2,491
(26,087)	(Purchase)/sale of long and short-term investments	9,054
6,550	Other receipts from investing activities	3,261
<u>(134,463)</u>	Net cash flows from investing activities	<u>(135,214)</u>

17. Cash flow statement – financing activities

2013/14 £000		2014/15 £000
135,600	Cash receipts of short and long term borrowing	120,820
22,677	Other receipts from financing activities	66,059
(3,468)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(3,575)
(67,600)	Repayments of short and long term borrowing	(102,800)
(12,017)	Other payments for financing activities	6,556
<u>75,192</u>		<u>87,060</u>

18. Cash flow statement – cash and cash equivalents

	At 1 April 2014 £000	Cash flow £000	At 31 March 2015 £000
Temporary investments	46,032	(2,470)	43,562
Cash in hand	69	(4)	65
Cash at bank	(4,592)	3,749	(843)
Total cash and cash equivalents	41,509	1,275	42,784

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 Statement)
- 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:

Service income and expenditure

2014/15	Fees, charges and other income £000	Government grants and other contributions £000	Interest and investment income £000	Total income £000	Staff costs £000	Other costs £000	Total expenditure £000	Net expenditure £000
Care and Learning	(18,675)	(6,123)	-	(24,798)	197,463	210,981	408,444	383,646
Community Services	(65,225)	(740)	(29)	(65,994)	69,351	58,053	127,404	61,410
Corporate Development	(11,650)	-	-	(11,650)	8,592	21,066	29,658	18,008
Finance Service	(5,731)	-	(532)	(6,263)	16,225	1,817	18,042	11,779
Housing Benefit	(51,068)	-	-	(51,068)	-	50,722	50,722	(346)
Discretionary Housing Payments	-	-	-	-	-	909	909	909
Scottish Welfare Fund Grants	-	-	-	-	-	917	917	917
Advice Services	(136)	-	-	(136)	410	1,271	1,681	1,545
Non Domestic Rates reliefs	-	-	-	-	-	690	690	690
Development and Infrastructure	(28,958)	(2,692)	-	(31,650)	19,425	24,776	44,201	12,551
Chief Executive's Office	(184)	-	-	(184)	3,996	2,685	6,681	6,497
Nairn Common Good Fund	-	-	-	-	-	187	187	187
Loan Charges	-	-	-	-	-	55,230	55,230	55,230
Interest and investment income	-	-	-	-	-	(340)	(340)	(340)
Joint board requisitions								
Police Board	-	-	-	-	-	-	-	-
Fire Board	-	-	-	-	-	-	-	-
Valuation Joint Board	-	-	-	-	-	2,258	2,258	2,258
Highland and Islands Transport Partnership	-	-	-	-	-	91	91	91
	(181,627)	(9,555)	(561)	(191,743)	315,462	431,313	746,775	555,032

Service income and expenditure

2013/14 (Restated)	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
Care and Learning	(17,555)	(6,362)	-	(23,917)	195,557	203,669	399,226	375,309
Community Services	(128,295)	(755)	(35)	(129,085)	68,825	114,658	183,483	54,398
Corporate Development	(12,495)	(3)	-	(12,498)	8,354	18,150	26,504	14,006
Finance Service	(7,093)	-	-	(7,093)	17,157	1,737	18,894	11,801
Housing Benefit	(52,294)	-	-	(52,294)	-	53,144	53,144	850
Discretionary Housing Payments	-	-	-	-	-	-	-	-
Scottish Welfare Fund Grants	-	-	-	-	-	651	651	651
Advice Services	-	-	-	-	384	17	401	401
Non Domestic Rates reliefs	-	-	-	-	-	695	695	695
Development and Infrastructure	(24,059)	(208)	(1)	(24,268)	17,777	28,278	46,055	21,787
Chief Executive's Office	(320)	-	-	(320)	4,132	4,238	8,370	8,050
Nairn Common Good Fund	-	-	-	-	-	390	390	390
Loan Charges	-	-	-	-	-	53,072	53,072	53,072
Interest and investment income	-	-	(167)	(167)	-	-	-	(167)
Joint board requisitions								
Police Board	-	-	-	-	-	2,100	2,100	2,100
Fire Board	-	-	-	-	-	33	33	33
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

2013-14 figures have been restated to reflect the new service structure

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

2013/14 £000		2014/15 £000
545,810	Net expenditure in the service analysis	555,032
(3,892)	Net expenditure of services not included in the analysis	(5,062)
50,088	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	69,815
(62,045)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(59,479)
(10,291)	Allocation of recharges	(9,891)
<u>519,670</u>	Cost of services in Comprehensive Income and Expenditure Statement	<u>550,415</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

2014/15	Service analysis £000	Services and support services not in analysis £000	Amounts not reported to management £000	Amounts not included in I&E £000	Allocation of recharges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(181,627)	(48,183)	-	-	(8,817)	(238,627)	-	(238,627)
Interest and investment income	(9,555)	-	-	-	-	(9,555)	(384)	(9,939)
Income from council tax	-	-	-	-	-	-	(101,626)	(101,626)
Government grants and contributions	(561)	-	(3,701)	-	-	(4,262)	(522,521)	(526,783)
Total Income	(191,743)	(48,183)	(3,701)	-	(8,817)	(252,444)	(624,531)	(876,975)
Employee expenses	315,462	-	12,439	-	-	327,901	16,358	344,259
Other service expenses	431,313	27,810	(949)	(4,249)	(1,074)	452,851	(96)	452,755
Depreciation, amortisation and impairment	-	15,311	62,083	-	-	77,394	-	77,394
Interest payments	-	-	(57)	(55,230)	-	(55,287)	46,332	(8,955)
Loss on disposal of non-current assets	-	-	-	-	-	-	1,388	1,388
Total expenditure	746,775	43,121	73,516	(59,479)	(1,074)	802,859	63,982	866,841
(Surplus)/deficit on the provision of services	555,032	(5,062)	69,815	(59,479)	(9,891)	550,415	(560,549)	(10,134)

2013/14	Service analysis £000	Services and support services not in analysis £000	Amounts not reported to management £000	Amounts not included in I&E £000	Allocation of recharges £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	(8,970)	(10,291)	489,129	(88)	489,041
Depreciation, amortisation and impairment	-	14,193	56,431	-	-	70,624	-	70,624
Interest payments	-	-	(57)	(53,075)	-	(53,132)	44,167	(8,965)
(Gain)/loss on disposal of non-current assets	-	-	-	-	-	-	216	216
Total expenditure	795,452	42,807	65,970	(62,045)	(10,291)	831,893	58,987	890,880
(Surplus)/deficit on the provision of services	545,810	(3,892)	50,088	(62,045)	(10,291)	519,670	(516,995)	2,675

20. Trading operations

The Council 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 2014/15 is as follows:

Fishery, Piers and Harbours	£000
Turnover	13,460
Expenditure	(13,359)
Surplus	101
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)	96
Three year surplus	
Financial Year	£000
2012/13	222
2013/14	88
2014/15	96
	406

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 demonstrate that the STO met this target.

21. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2014-2015 the Council collected £111.813m and received £124.210m contribution from the non-domestic rates pool (2013-2014 £106.355m and £114.154m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2014/15 the Council paid over £32.901m and received £0.755m for providing this service. During 2013/14 the Council paid over £29.789m and received £0.597m for providing this service.

Payments totalling £0.125m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services.

22. External audit costs

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

2013/14 £000		2014/15 £000
	Fees payable to Audit Scotland with regard to external audit services	
<u>444</u>		<u>449</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 these Annual Accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15 the Council paid £14.105m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2013/14 were £13.846m and 14.9%. There were no contributions remaining payable at the year-end.

In 2014/15 the Council paid £0.797m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 13.5% of pensionable pay. The figures for 2013/14 were £0.792m and 13.5%. 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.
- The Highland Council Pension Fund scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Highland Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Finance and Resources of Highland Council Pension Fund managers.
- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

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.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000 2013/14	£000 2014/15	£000 2013/14	£000 2014/15
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	31,536	36,393	-	-
Past service cost (including curtailments)	55	810	-	-
	<u>31,591</u>	<u>37,203</u>	<u>-</u>	<u>-</u>
Financing and investment income and expenditure	12,800	14,357	1,892	2,001
Total post employment benefits charged to the surplus or deficit on the provision of services	44,391	51,560	1,892	2,001
Other post employment benefits charged to the comprehensive income and expenditure statement	-	-	-	-
Remeasurement of the net defined benefit liability comprising:	-	-	-	-
Return on plan assets (excluding the amount included in the net interest expense)	(21,422)	(109,729)	-	-
Actuarial losses arising on changes in financial assumptions	53,767	145,707	1,700	3,825
Actuarial losses arising on changes in demographic assumptions	-	15,519	-	647
Experience adjustments	<u>544</u>	<u>(62,737)</u>	<u>4,705</u>	<u>2,148</u>
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	<u>77,280</u>	<u>40,320</u>	<u>8,297</u>	<u>8,621</u>

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000	£000	£000	£000
	2013/14	2014/15	2013/14	2014/15
Movement in reserves statement				
Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	(44,391)	(51,560)	(1,892)	(2,001)
Actual amount charged against the General Fund balance for pensions in the year				
Employers contributions payable to the scheme	20,049	20,422	2,700	2,799

Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/14	31/3/15	31/3/14	31/3/15
	£000	£000	£000	£000
Present value of the defined benefit obligation	(1,203,095)	(1,360,139)	(49,918)	(55,740)
Fair value of pension fund assets	860,664	997,810	-	-
Net liability arising from defined benefit obligation	(342,431)	(362,329)	(49,918)	(55,740)

Information about the defined benefit obligation

	£000	Liability split Percentage (%)	Duration Years
Active members	738,906	54.3%	22.4
Deferred members	189,266	13.9%	21.6
Pensioner members	431,967	31.8%	11.3
Total	1,360,139	100.0%	17.8

Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/14	31/3/15	31/3/14	31/3/15
	£000	£000	£000	£000
Opening fair value of scheme assets	805,747	860,664	-	-
Interest income	35,411	35,107	-	-
Return on plan assets	21,422	109,729	-	-
Contributions by employer	20,049	20,422	2,700	2,799
Contributions by Scheme participants	6,569	6,743	-	-
Estimated benefits paid (net of transfers in)	(28,534)	(34,855)	(2,700)	(2,799)
Closing fair value of scheme assets	860,664	997,810	-	-

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	31/3/14	31/3/15	31/3/14	31/3/15
	£000	£000	£000	£000
Opening defined benefit obligation	(1,090,949)	(1,203,095)	(44,319)	(49,918)
Current service cost	(31,536)	(36,393)	-	-
Interest cost	(48,211)	(49,464)	(1,892)	(2,001)
Contributions by scheme participants	(6,569)	(6,743)	-	-
Remeasurement (gains) and losses:				
Actuarial losses from changes in financial assumptions	(53,766)	(145,707)	(1,701)	(3,825)
Actuarial losses from changes in demographic assumptions	-	(15,519)	-	(647)
Experience adjustments	(543)	62,737	(4,706)	(2,148)
Estimated benefits paid (net of transfers in)	28,534	34,855	-	-
Unfunded pension payments			2,700	2,799
Past service cost	(55)	(810)	-	-
Closing value	(1,203,095)	(1,360,139)	(49,918)	(55,740)

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:

2013/14		2014/15
2%	Cash and cash equivalents	1%
	Equity Securities:	
	By industry type	
11%	Consumer	11%
8%	Manufacturing	8%
6%	Energy and utilities	4%
10%	Financial institutions	10%
3%	Health and care	3%
7%	Information technology	7%
2%	Other	2%
	Debt Securities:	
	By sector	
12%	Corporate	14%
7%	Government	7%
2%	Private Equity	3%
	Property:	
7%	UK	10%
1%	Overseas	1%
	Other Investment Funds:	
22%	Equity	19%
100%	Total	100%

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

31 March 2014 £000	Fair value of pension fund assets	31 March 2015 £000
	Equity Instruments	
778,107	Quoted in an active market	867,327
82,557	Not quoted in an active market	130,483
860,664	Total equity instruments	997,810

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:

	2014/15	2013/14
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	22.5	21.3
• Women	24.1	23.6
Longevity at 65 for future pensioners (years)		
• Men	24.7	22.6
• Women	26.8	25.1
Rate of inflation	2.40%	2.60%
Rate of increase in salaries	4.30%	4.90%
Rate of increase in pensions	2.40%	2.60%
Rate for discounting fund liabilities	3.20%	4.10%
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%	42,476
Rate of increase in salaries (increase or decrease by 0.5%)	3%	46,579
Rate of increase in pensions (increase or decrease by 0.5%)	7%	97,822
Rate for discounting fund liabilities (increase or decrease by 0.5%)	10%	147,872

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 objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2017.

From 1 April 2015 the Scottish Local Government Pension Scheme will change from final salary to revalued career earnings.

The actuaries have estimated that contributions for the year to 31 March 2016 will be approximately £20.935m.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years 2014/15 (15.7 years 2013/2014).

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 following scheduled and admitted bodies are members of The Highland Council Pension Fund:

Scheduled Bodies

- | | |
|---|---------------------------------------|
| 1. The Highland Council | 7. HITRANS |
| 2. Comhairle Nan Eilean Siar | 8. Inverness College |
| 3. Highland and Western Isles Valuation Joint Board | 9. Lews Castle College |
| 4. Scottish Fire & Rescue | 10. Scottish Police Authority |
| 5. Highlands of Scotland Tourist Board | 11. Scottish Police Service Authority |
| 6. Western Isles Tourist Board | 12. The North Highland College |

Admitted Bodies

- | | |
|---|---|
| 1. Bord Na Gaidhlig | 12. Highlife Highland |
| 2. Inverness Leisure | 13. Inverness Harbour Trust |
| 3. An Comunn Gaidhealach | 14. Morrison FM |
| 4. Cromarty Firth Port Authority | 15. NHS Highland |
| 5. Eden Court Theatre | 16. RS Occupational Health |
| 6. Fujitsu Ltd | 17. Skills Development Scotland |
| 7. Forth & Oban Limited | 18. Stornoway Port Authority |
| 8. Hebridean Housing Partnership | 19. University of the Highlands & Islands |
| 9. Highland Blindcraft | 20. Vacman Limited |
| 10. Highland & Islands Enterprise (HIE) | 21. Sight Action |
| 11. Highland Opportunity Ltd | |

The following table shows the number of contributors, pensioners and deferred pensioners:

2014/15	Contributors	Pensioners	Deferred Pensioners
Highland Council	6,984	5,887	5,493
Scheduled Bodies	2,771	1,702	1,787
Admitted Bodies	2,393	496	679
Total	12,148	8,085	7,959
2013/14			
Highland Council	6,781	5,659	5,513
Scheduled Bodies	2,647	1,625	1,726
Admitted Bodies	2,422	381	593
Total	11,850	7,665	7,832

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 44.

Members

Elected Members have influence on the financial and operating policies of the Council through membership of Committees or Sub – Committees, subject to the declaration of interests provisions within the Councillors Code of Conduct.

The total of members' allowances paid in 2014/15 is shown in the remuneration report.

As part of preparation of these accounts members were asked to confirm if they had any related party transactions with the Council. Only 47 out of 80 responses were received, and it has been assumed that a nil response has meant there are no related party transactions. This issue will be raised with members to ensure a full response in future.

One funeral director business, owned by a councillor, had debts of £0.048m owed to the Council at 31st March 2015.

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 Annual Accounts available upon request from the Director of Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

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 £1.012m (2013/14 £1.004m) 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 2014/15 Highland Council paid NHS Highland £93.072m for the provision of integrated adult services and NHS Highland made payment of £8.659m 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, both 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 2014	734	(143)	(143)
31 March 2013	1,120	(172)	(172)

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) £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
Year ended 31 March 2014			
Highland Opportunity (Communities) Limited	355	2	2
Highland Opportunity (EBS) Limited	105	(41)	(41)
Highland Opportunity (Investments) Limited	2,220	34	28
Ness Horizons Ltd	(23)	3	2

	Net assets (Liabilities)	Profit/(loss) before taxation	Profit/(loss) after taxation
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)

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

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

31/03/14 £000		31/03/15 £000
2,141	Not later than one year	2,380
7,139	Later than one year and not later than five years	7,995
<u>78,507</u>	Later than five years	<u>81,214</u>
<u>87,787</u>		<u>91,589</u>

Highland Council as Lessee

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

31/03/14 £000		31/03/15 £000
4,634	Not later than one year	2,840
5,419	Later than one year and not later than five years	4,672
<u>5,622</u>	Later than five years	<u>6,352</u>
<u>15,675</u>		<u>13,864</u>

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

31/03/14 £000		31/03/15 £000
<u>5,241</u>	Minimum lease payments	<u>4,998</u>

28. Property, plant and equipment**Movements in 2014/15**

	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 2014	757,613	1,042,002	89,373	383,162	2,235	10,639	10,874	2,295,898	166,233
Additions	43,238	30,295	12,176	29,599	984	127	31,787	148,206	84
Revaluation increases/(decreases) recognised in the surplus/deficit of services	(966)	(25,784)	-	-	-	(1,234)	(215)	(28,199)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(9,150)	44,940	-	-	-	28	-	35,818	28,345
Derecognition - disposals	(2,406)	(244)	(373)	-	-	-	-	(3,023)	-
Assets reclassified (to)/from Held for Sale	(130)	(2,839)	-	-	-	(951)	-	(3,920)	-
Reclassifications	-	1,055	-	2,528	47	110	(3,740)	-	-
At 31 March 2015	788,199	1,089,425	101,176	415,289	3,266	8,719	38,706	2,444,780	194,662

	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 2014	48,477	64,140	37,869	61,195	-	249	-	211,930	13,221
Depreciation charge	13,695	16,315	8,962	11,266	-	46	-	50,284	3,107
Depreciation written out to the revaluation reserve	-	(47,179)	-	-	-	(5)	-	(47,184)	(13,222)
Depreciation written out to the surplus/deficit on provision of services	-	(5,193)	-	-	-	(105)	-	(5,298)	-
Derecognition - disposals	-	(15)	(188)	-	-	-	-	(203)	-
Reclassifications	-	(1)	-	-	-	1	-	-	-
Assets reclassified (to)/from Held for Sale	-	(173)	-	-	-	(31)	-	(204)	-
At 31 March 2015	62,172	27,894	46,643	72,461	-	155	-	209,325	3,106
Net book value									
At 31 March 2015	726,027	1,061,531	54,533	342,828	3,266	8,564	38,706	2,235,455	191,556
At 31 March 2014	709,136	977,862	51,504	321,967	2,235	10,390	10,874	2,083,968	153,012

Comparative 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

	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

29. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2015, for the acquisition of property, plant and equipment, was £106.683m (31 March 2014 £197.080m). Details of the major commitments by contract or project are as follows:

Contract or Project	2014/15 £m
HRA Housing – Council House New Builds	24.473
Inverness Royal Academy - New School	18.768
New Primary School , Noss Primary School (Construction Element Only)	9.640
New Primary School, Caol Joint Campus Fort William	8.466
HRA Housing - Sutherland Solid Fuel to Biomass Heating	7.225
Miscellaneous projects with an individual commitment less than £0.5m	7.106
HRA Housing - Wester Ross Replace Existing Elec/Solid with Biomass	3.750
HRA Housing - North Heating - General	3.593
HRA Housing - Lochaber, Installation of Biomass	3.485
New Primary School, Lundavra Road, Fort William	3.255
River Ness Flood Prevention Scheme, Phase II	2.328
HRA Housing - Inverness and Nairn, Installation of Biomass	2.165
Office Rationalisation, Kingussie	1.743
HRA Housing - Skye Biomass Heating	1.615
HRA Housing - Badenoch/Lochaber/Inverness/Nairn Electric Heating	1.503
Lochaber High - Refurbishment, Phase 3 & 4	1.369
Cromarty Primary - Extension/Refurbishment	1.353
HRA Housing - Badenoch/Lochaber/Inverness Heating	1.193
Vehicles and Plant	1.144
River Ness Flood Prevention Scheme, Phase I	1.099
New Gaelic Primary School, Fort William	0.811
Reconstruction of Market Square offices in Wick	0.599
	<u>106.683</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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2013/14 £000 (restated)		2014/15 £000
816,157	Opening capital financing requirement	860,420
	Capital investment	
118,155	Property, Plant and Equipment	148,206
14,596	Revenue Expenditure funded from capital under statute	3,699
933	Non Enhancing Expenditure	
	Sources of finance	
(3,207)	Capital receipts	(1,968)
(1,700)	Capital Fund	(2,441)
(39,547)	Government grants and other contributions	(70,079)
	Sums set aside from revenue	
(8,085)	- direct revenue contributions	(4,448)
(33,403)	- loans fund principal	(35,274)
(11)	House loans	(11)
(3,468)	Reduction in Finance Lease Creditors (PPP)	(3,575)
<u>860,420</u>	Closing capital financing requirement	<u>894,529</u>
	Explanation of movements in the year	
44,252	Increase in underlying need to borrow (supported by government financial assistance)	34,098
11	Increase in underlying need to borrow (unsupported by government financial assistance)	11
<u>44,263</u>	Increase/(decrease) in capital financing requirement	<u>34,109</u>

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	√	√

31. Private finance initiatives and similar contracts

Fujitsu Services Ltd

The Council signed a contract with Fujitsu Services Ltd in April 2010 for the provision of ICT Services. The contract is for a period of 5 years but with an option to extend for a further two years. The total estimated charges over the 5 years, after efficiency savings, amounts to £63.7m. During 2013/14 the Council agreed a Service Continuation agreement with Fujitsu Services Ltd under which certain ICT services would continue to be provided by Fujitsu until October 2016. Under the Service Continuation arrangements the Council will pay Fujitsu £9.951m in 2015/16 and £8,936m in 2016/17.

Community Schools (Highlands) Ltd

The Council signed a PFI Project Agreement 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 project in 2014/15 was £3.654m (2013/14 £3.592m). 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 2015 until July 2027 amounts to £41.71m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £17.56m over the remaining term of the contract.

Alpha Schools (Highlands) Ltd

The Council signed a 30 year Project Agreement with Alpha Schools (Highland) Ltd on the 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 project in 2014/15 was £20.217m (2013/14 £19.952m). 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 £467.6m. (est. cash prices). The Council receives Revenue Support of £7.16m pa from the Scottish Government towards these costs. This support is estimated to amount to £164.7m over the remaining term of the contract.

Hub North Scotland (Wick) Limited

The Council signed a 25 year Design, Build, Finance and Maintain (DBFM) Project Agreement with Hub North Scotland (Wick) Limited on the 19th December 2014 for the provision of a Wick Community Campus comprising Primary School, High School, Public Library and Swimming Pool.

Under the DBFM Project Agreement Hub North Scotland (Wick) Limited construct the facility and carry out certain maintenance obligations during the operational phase using their own funding. Hub North Scotland (Wick) Limited will recover their costs through an indexed Annual Service Charge (ASC) payable by the Council over the 25 years. The ASC commences from the school availability date scheduled to be 16 September 2016.

The Annual Service Charge in the first full year (2017/18) payable by the Council amounts to £4.617m.

During the 25 year term the Council will receive financial support from the Scottish Government towards the funding of the Annual Service Charge. This Scottish Government funding will commence from the school availability date and in the first full year (2017/18) amounts to £4.069m leaving the Council to fund £0.548m from its own resources.

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

2013/14 £000		2014/15 £000
(132,966)	As at 1 April 2014	(129,498)
3,468	Repaid in year	3,575
<u>(129,498)</u>	As at 31 March 2015	<u>(125,923)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2015 (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	3,953	19,543	23,496
within 2 to 5 years	16,238	80,636	96,874
within 6 to 10 years	26,303	101,560	127,863
within 11 to 15 years	29,156	95,519	124,675
within 16 to 20 years	33,092	89,210	122,302
within 21 to 25 years	17,181	33,820	51,001
	<u>125,923</u>	<u>420,288</u>	<u>546,211</u>

32. Intangible assets (non current)

31/03/14 £000		31/03/15 £000
400	Cost or valuation	400
-	As at 31 March 2014	-
<u>400</u>	Revaluations	<u>400</u>
	As at 31 March 2015	
240	Cumulative depreciation	320
80	As at 31 March 2014	80
<u>320</u>	Charge for year	<u>400</u>
	As at 31 March 2015	
80	Net book value	-
<u>80</u>	As at 31 March 2015	<u>-</u>
160	As at 31 March 2014	<u>80</u>

33. Intangible assets (current)

31/03/14 £000		31/03/15 £000
-	Opening Balance	-
-	Additions	632
-	As at 31 March 2015	632

34. Assets held for sale

2013/14 £000		2014/15 £000
2,023	As at 1 April 2014	989
(172)	Reclassifications	3,716
(44)	Revaluation increases/(decreases) recognised in the surplus/(deficit) on the provision of services	62
(818)	Assets sold	(853)
989	As at 31 March 2015	3,914

35. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2014	-	-	-
Revaluations	6,290	2,247	8,537
Balance at 31 March 2015	6,290	2,247	8,537

36. Long term investments

31/03/14			31/03/15	
Cost £000	Carrying Amount £000		Cost £000	Carrying Amount £000
1,175	1,061	Inverness Airport Business Park Ltd	1,175	1,118

37. Inventories

31/03/14 £000		31/03/15 £000
5,551	Raw materials and consumables	3,271

38. Long term debtors

31/03/14 £000		31/03/15 £000
15,881	Police Scotland	15,378
8,410	Scottish Fire and Rescue Service	7,845
9,853	Landbanking fund advances	10,883
6,937	National Housing Trust	11,100
136	House Loans	125
12	Car Loans	8
85	Other loans	78
5,336	Caithness Heat and Power Ltd	5,336
(5,336)	Caithness Heat and Power Ltd Impairment	(5,336)
<u>41,314</u>	Long term debtors (net of impairment)	<u>45,417</u>

39. Short term debtors

31/03/14 £000		31/03/15 £000
18,933	Central government bodies	20,666
622	Other local authorities	2,956
2,771	NHS bodies	165
56	Public corporations	3
70,089	Other entities and individuals	55,289
<u>92,471</u>		<u>79,079</u>
(40,710)	Provision for impairment	(36,156)
<u>51,761</u>	Total (net of impairment)	<u>42,923</u>

40. Short term creditors

31/03/14 £000 (restated)		31/03/15 £000
7,446	Central government bodies	10,939
-	Other local authorities	15
22,788	NHS bodies	23,284
51	Public corporations	1,231
7,417	Finance lease creditors	8,049
63,214	Other entities and individuals	54,669
<u>100,916</u>	Total	<u>98,187</u>

41. Provisions

	Note	At 1/04/14	Increase in provision	Use of provision	Unused amounts reversed during the year	At 31/03/15
Short term		£000	£000	£000	£000	£000
Equal Pay	1	564	-	(185)	-	379
Insurance	2	660	294	(438)	-	516
Building Delapidations	3	-	469	-	-	469
		<u>1,224</u>	<u>763</u>	<u>(623)</u>	<u>-</u>	<u>1,364</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 repairs on dilapidated buildings

42. Long Term Liabilities

31/03/14 £000		31/03/15 £000
392,349	Pension Liability	418,069
122,081	Finance lease creditors	117,874
2,150	Other long term creditors	2,150
<u>516,580</u>		<u>538,093</u>

43. 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 2015 is £0.248m (31 March 2014 £0.269m).

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.

A total of 2,950 equal pay claims have now been lodged with the Council. There are approximately 1,985 equal pay claims relating to the 'post implementation' period from 1 April 2008 onwards. A contingent liability is recognised for the claims that have an element of financial risk attached to them. 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. A provision of £0.469m has been made for these costs, but other buildings exist for which the cost of repairs could not be reliably estimated.

Highland Council Pension Fund

The Council acts as Guarantor for the following Admitted Bodies in the Highland Council Pension Fund:

Joint Valuation Board
 Highland Opportunities
 HITRANS
 Sight Action
 Eden Court
 UHI
 Caledonia Community Leisure

Any liability would only materialise should the organisations cease to become members of the Fund and be unable to meet any termination value calculated by the Fund Actuaries.

44. Grant income

The Comprehensive Income and Expenditure Statement in 2014/15 includes the following grants, contributions and donations:

2013/14 £000		2014/15 £000
	Credited to Taxation and non-specific grant income	
336,229	Revenue support grant	331,930
114,154	Non-Domestic rates	124,211
25,205	Capital grants and contributions	66,380
<u>475,588</u>		<u>522,521</u>
	Credited to services	
14,552	Capital grants and contributions	3,699
	Department of Works and Pensions	
51,187	Housing benefits	51,138
	General Fund Housing	
130	Universal Home Insulation	-
	Home Energy Efficiency Programmes for Scotland: Area	
-	Based Schemes	3,183
	Education, Culture and Sport	
940	Gaelic	940
1,055	EMA Co-ordination	915
145	Activity agreement pilots	156
-	Youth Music Initiative	543
	Health and Social Care	
3,217	Criminal Justice Grant	3,229
287	Family Nurse Partnership	294
77	European Childcare Staff Qualifications	-
<u>547,178</u>	Total	<u>586,618</u>

45. Financial instrument balances

Categories of Financial Instruments

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

31/03/14			31/03/15	
Long term £000	Current £000		Long term £000	Current £000
		Investments		
1,061	-	Loans and receivables	1,118	-
1,061	-	Total investments	1,118	-
		Debtors		
41,314	49,136	Loans and receivables	45,417	42,923
-	31,902	Financial assets carried at contract amounts	-	22,038
41,314	81,038	Total included in Debtors	45,417	64,961
-	41,509	Cash and Cash equivalents	-	42,784
		Borrowing		
694,565	56,316	Financial liabilities at amortised cost	726,971	44,592
694,565	56,316	Total Borrowing	726,971	44,592
		Other long term liabilities		
122,081	-	PFI and finance lease liabilities	117,874	-
394,499	-	Other long term liabilities	420,219	-
516,580	-	Total other long term liabilities	538,093	-
		Creditors		
-	100,916	Financial liabilities at contract amount	-	98,187
-	100,916	Total creditors	-	98,187

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.

2013/14 £000		2014/15 £000
10,507	Balance at 1 April 2014	9,852
-	Prior year adjustment – loans made 2013/14 incorrectly classified	881
10,507		10,733
1,112	Nominal value of new loans made in the year	1,856
(1,683)	Loans repaid in the year	(1,254)
(34)	Loans written off in the year	-
(50)	Fair value adjustment re interest uncharged in year	(452)
9,852	Balance at 31 March 2015	10,883

Landbank loans advanced were understated by £881k in 2013/14 and gross expenditure in Housing Services was overstated by the same amount.

Loans to Inverness Airport Business Park

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

2013/14 £000		2014/15 £000
1,003	Balance at 1 April 2014	1,061
58	Fair value adjustment re interest uncharged in year	57
<u>1,061</u>	Balance at 31 March 2015	<u>1,118</u>

Valuation assumptions

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

46. 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 2015	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(62,690)	-	(62,690)
Interest and investment income	-	384	384
Net gain/(loss) for year	(62,690)	384	(62,306)

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	(58,858)	443	(58,415)

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.

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

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.

47. 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:

31/03/14		31/03/15
£000		£000
6,445	Less than three months	5,632
778	Three to six months	819
1,320	Six to twelve months	1,322
4,446	More than twelve months	5,237
<u>12,989</u>	Total	<u>13,010</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 2015, 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	(436)
Impact on Income and Expenditure Account	<u>575</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>113,068</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:

2013/14			2014/15	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
Loans outstanding				
584,117	584,011	Public Works Loans Board	628,235	628,131
121,749	117,306	Market long term	120,980	117,306
41,168	41,168	Temporary loans	15,782	15,750
3,847	3,847	Internal loans	6,567	6,567
<u>750,881</u>	<u>746,332</u>	Total	<u>771,564</u>	<u>767,754</u>
Maturity				
55,122	55,015	Less than 1 year	44,592	43,267
1,042	1,000	Between 1 and 2 years	750	750
67,810	67,060	Between 2 and 5 years	77,126	77,126
94,075	94,052	Between 5 and 10 years	77,767	77,766
532,832	529,205	More than 10 years	571,329	568,845
<u>750,881</u>	<u>746,332</u>		<u>771,564</u>	<u>767,754</u>

48. Events after Reporting Period

The unaudited Annual Accounts were issued by the Director of Finance on 22 June 2015 and the audited Annual Accounts was authorised for issue on 30 September 2015. 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 2015 the financial statements have been adjusted in all material respects.

The next repayment of the loan to IABP was due to be made in May 2015. In accordance with the loan agreement the Company opted to defer any repayment at this stage, and therefore the full amount remains outstanding.

The Council has entered into discussions with the Company to obtain a revised business plan and cashflow forecasts in order to consider a revised timescale for this loan to be repaid. It is expected that this review will be completed during 2015/16.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

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.

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.

2013/14		2014/15	
£000		£000	£000
	Income		
(44,833)	Dwelling rents (gross)	(46,223)	
(867)	Non-dwelling rents (gross)	(786)	
(999)	Other income	(1,174)	
(46,699)			(48,183)
	Expenditure		
16,174	Repairs and maintenance	16,792	
9,643	Supervision and management	9,681	
14,193	Depreciation and impairment of non-current assets	15,311	
2,793	Other expenditure	1,337	43,121
42,803			
	Net expenditure/(income) from HRA services as included in Council Comprehensive Income and Expenditure Statement		(5,062)
231	HRA share of corporate and democratic core	343	
13	HRA share of non-distributed costs	62	
244			405
(3,652)	Net expenditure/income from HRA services		(4,657)
(282)	(Gain)/loss on disposal of non-current assets	599	
8,481	Interest payable and similar charges	9,698	
(482)	Amortisation of premiums and discounts	(516)	
(51)	Interest and investment income	(45)	
977	Pension net interest	1,056	
(8,199)	Capital Grants and contributions	(10,387)	
444			405
(3,208)	(Surplus)/Deficit on HRA services		(4,252)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2013/14 £000	2014/15	
	£000	£000
(6,804)	Balance on HRA at 1 April 2014	(7,328)
(3,208)	Surplus for the year on HRA Income and Expenditure Statement	(4,252)
	Adjustments between accounting basis and funding basis under statute	
282	Gain on sale of HRA non current assets	(599)
3,353	Capital expenditure funded by the HRA	4,198
16	Movement in employee benefits accrual	(14)
3,651		3,585
(14,193)	Transfer to the Capital Adjustment Account	
	- Depreciation and impairment	(15,311)
6,270	- repayment of debt	7,034
8,199	- Capital grants and contributions	10,386
276		2,109
(1,565)	HRA share of contributions to the Pensions Reserve	(1,958)
482	HRA share of transfer from the Financial Instruments Adjustment Account	516
(160)	Contribution from the capital fund	-
(7,328)	Balance on HRA at 31 March 2015	(7,328)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/14 £000		31/03/15 £000
1,371	Current tenants	1,490
1,028	Former tenants	838
<u>2,399</u>	Total	<u>2,328</u>

2. Uncollectable rent voids

Uncollectable rent voids of £0.935m (2013/14 £0.979m) have been netted off against rental income

3. Impairment of debtors

In 2014/15 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/14 £000		31/03/15 £000
1,704	Rent arrears	1,607
471	Sundry debts	647
<u>2,175</u>		<u>2,254</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/14 Number	Type of House	31/03/15 Number
239	1 apartment	243
3,333	2 apartment	3,389
5,569	3 apartment	5,614
4,125	4 apartment	4,136
353	5 apartment	354
24	6 apartment	25
2	8 apartment	2
1	10 apartment	1
<u>13,646</u>		<u>13,764</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.

2013/14 £000		2014/15 £000
128,784	Gross Council Tax levied and contributions in lieu	130,001
(12,679)	Council Tax Reduction Scheme	(12,033)
1	Council Tax Benefits (net of Government grants)	-
-	Discounts for prompt payment	-
(14,753)	Other discounts and reductions	(14,601)
(3,035)	Write off of uncollectable debts and allowances for impairment	(2,982)
	Adjustments for prior years Council Tax and	
1,633	Community Charge	1,241
99,951	Net Council Tax income per the Comprehensive Income and Expenditure Statement	101,626

Calculation of the Council Tax base 2014/15

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)*	-	-	45	(3)	(1)	41	5/9	23
A	19,621	(1,052)	63	(2,415)	(437)	15,780	6/9	10,520
B	23,011	(931)	28	(2,359)	(469)	19,280	7/9	14,995
C	22,969	(680)	(14)	(2,035)	(607)	19,633	8/9	17,452
D	17,912	(358)	57	(1,232)	(485)	15,894	9/9	15,894
E	17,663	(268)	(89)	(930)	(439)	15,937	11/9	19,479
F	8,600	(98)	(47)	(333)	(200)	7,922	13/9	11,443
G	4,170	(54)	(41)	(130)	(143)	3,802	15/9	6,336
H	320	(9)	(2)	(5)	(37)	267	18/9	534
Total	114,266	(3,450)	-	(9,442)	(2,818)	98,556	-	96,676
Council Tax Reduction								(10,347)
Contributions in lieu								168
Provision for non- collection (2.89%)								(2,500)
Council tax base								83,997

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

THE HIGHLAND COUNCIL ANNUAL ACCOUNTS 2014/15

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 2014/15 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 2014/15

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

2013/14 £000		2014/15 £000
143,315	Gross rates levied and contributions in lieu	148,428
(30,090)	Reliefs and other deductions	(31,123)
-	Payment of interest	(84)
(1,087)	Write-off of uncollectible debts and allowance for impairment	(1,154)
112,138	Net Non-Domestic Rate Income	116,067
(5,783)	Adjustment to previous years' national Non-Domestic rates	(4,254)
106,355	Contribution to Non-Domestic Rate Pool	111,813

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.

114,154	Distribution from Non-Domestic Rate Pool	124,210
-	Non-Domestic Rate Income retained by Council	1
114,154	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	124,211

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 2014/15 was 47.1p Rateable Value equal to or less than £35,000 and 48.2p Rateable Value greater than £35,000.

In addition, large retail properties with a Rateable Value on or over the threshold of £300,000 which sells both alcohol and tobacco will also be required to pay the Public Health Supplement of 13p.

Highland Council Rateable Values

1 April 2013			1 April 2014		
Number of units	Rateable values £000		Number of units	Rateable values £000	
2,644	67,978	Shops	2,649	66,666	
889	19,546	Public houses and hotels	893	19,488	
1,740	27,960	Offices	1,786	28,021	
2,686	39,980	Industrial subjects	2,709	40,866	
4,827	20,585	Leisure, entertainment, caravans and holiday sites	4,880	20,517	
355	4,580	Garages and petrol stations	349	4,559	
1,034	22,938	Cultural, sporting subjects, education and training	1,033	22,567	
1,156	14,373	Public service subjects	1,146	14,434	
2,042	89,288	Miscellaneous	2,057	90,172	
17,373	307,228	Total	17,502	307,290	

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 2013/14		Revenue Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	Note	£000	£000	£000	£000	£000
Balance at 31 March 2013		7,252	3,747	2,123	31,658	44,780
Movement in reserves during 2013/14						
Deficit on provision of services		(2,745)	-	-	-	(2,745)
Other Comprehensive Income and Expenditure		-	378	(237)	-	141
Total Comprehensive Income and Expenditure		(2,745)	378	(237)	-	(2,604)
Adjustments between accounting and funding basis	1	2,984	-	-	(2,984)	-
Balance at 31 March 2014		7,491	4,125	1,886	28,674	42,176

COMMON GOOD FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2014/15

**MOVEMENT IN RESERVES
STATEMENT 2014/15**

		Revenue Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	Note	£000	£000	£000	£000	£000
Balance at 31 March 2014		7,491	4,125	1,886	28,674	42,176
Movement in reserves during 2014/15						
Surplus on provision of services		1,050		-	-	1,050
Other Comprehensive Income and Expenditure		-	(491)	692	-	201
Total Comprehensive Income and Expenditure		1,050	(491)	692	-	1,251
Adjustments between accounting and funding basis	1	(777)	-	-	777	-
Balance at 31 March 2015 carried forward		<u>7,764</u>	<u>3,634</u>	<u>2,578</u>	<u>29,451</u>	<u>43,427</u>

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2013/14				2014/15			
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000	
2,500	(75)	2,425	Inverness	3,511	(315)	3,196	
42	(14)	28	Nairn	4	(16)	(12)	
81	(58)	23	Tain	66	(7)	59	
17	-	17	Dornoch	27	-	27	
1	-	1	Dingwall	-	-	-	
2	-	2	Cromarty	-	-	-	
4	-	4	Invergordon	-	-	-	
2,647	(147)	2,500	Cost of services	3,608	(338)	3,270	
		635	Financing and investment income and expenditure (note 2)			(4,320)	
		(390)	Loan written off			-	
		2,745	Deficit on provision of services			(1,050)	
		237	Surplus on revaluation of heritage assets			(692)	
		(378)	Surplus on revaluation of available for sale financial assets			491	
		(141)	Other comprehensive income and expenditure			(201)	
		2,604	Total comprehensive income and expenditure			(1,251)	

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 MARCH 2015**

31/03/14 £000		Notes	31/03/15 £000
202	Property, Plant and Equipment	4	193
1,886	Heritage Assets	4	2,579
28,446	Investment Properties	4	29,242
26	Intangible Assets	7	16
10,911	Investments	8	9,860
41,471	Long Term Assets		41,890
763	Cash and cash equivalents	9	1,900
34	Sundry debtors		-
797	Current Assets		1,900
(92)	Sundry creditors		(363)
(92)	Current Liabilities		(363)
705	Net current assets		1,537
42,176	Net assets		43,427
7,491	Revenue funds		7,764
7,491	Usable Reserves	10	7,764
1,886	Revaluation Reserve	11	2,578
28,674	Capital Adjustment Account	12	29,451
4,125	Available for Sale Reserve	13	3,634
34,685	Unusable Reserves		35,663
42,176	Total Reserves		43,427

CASH FLOW STATEMENT

31/03/14 £000		Notes	31/03/15 £000
(2,745)	Net surplus/(deficit) on the provision of services		1,050
2,024	Adjust net surplus/(deficit) on the provision of services for non-cash movements	15	(1,913)
(721)	Net cash outflow from operating activities		(863)
-	Investing activities	16	2,000
(721)	Net increase/(decrease) in cash and cash equivalents		1,137
1,484	Cash and cash equivalents at 1 April 2014		763
763	Cash and cash equivalents at 31 March 2015		1,900

NOTES TO THE COMMON GOOD FUNDS ACCOUNTS**1. Movement in Reserves Statement - Adjustment between accounting and funding basis**

	Available for Sale Asset Reserves	Capital Adjustment Account	Total 2014/15	Total 2013/14
Accumulated gains on assets sold	(1,215)	-	(1,215)	-
Upward revaluation of investments	724	-	724	-
Revaluation of investment properties	-	787	787	(2,629)
Disposals of investment properties	-	-	-	(345)
Depreciation and amortisation	-	(10)	(10)	(10)
	<u>(491)</u>	<u>777</u>	<u>286</u>	<u>(2,984)</u>

2. Comprehensive income and expenditure statement – Financing and investment income and expenditure

2013/14 £000		2013/15 £000
(242)	Interest and investment income and expenditure	(1,514)
(2,050)	Rental income	(2,420)
298	Property costs	401
2,629	(Surplus)/deficit on revaluation of investment properties	(796)
-	(Surplus)/deficit on revaluation of intangible asset	9
<u>635</u>		<u>(4,320)</u>

3. Operating leases

Common Good Fund as lessor

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

2013/14 £000		2014/15 £000
<u>2,050</u>	Lease income received in year	<u>2,059</u>

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

31/03/14 £000		31/03/15 £000
1,917	Within one year	1,958
5,178	Later than one year and not later than five years	3,080
63,736	Later than five years	62,725
<u>70,831</u>		<u>67,763</u>

4. Non-current assets

Movements in 2014/15

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 31 March 2014	28,446	1,886	220	30,552
Additions	-	693	-	693
Revaluations	796	-	-	796
As at 31 March 2015	29,242	2,579	220	32,041
 As at 31 March 2014	-	-	18	18
Depreciation charge	-	-	9	9
As at 31 March 2015	-	-	27	27
 Net book value				
As at 31 March 2015	29,242	2,579	193	32,014
 As at 31 March 2014	28,446	1,886	202	30,534

Greg Youngson (MRICS), Acting Property Manager, Development and Infrastructure Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31st March 2015 in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors. However, the valuation of both Inverness Town House, and 1-3 Church Street, Inverness were carried out by the District Valuer.

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

5. Related Parties

During the period the council incurred £0.062m in relation to the administration of the Common Good Funds and was subsequently reimbursed for these expenses.

Common Good properties are used for service delivery by the council. The council paid the Common Good Fund £0.295m in rental income.

Also in 2014/15 the Common Good Fund made a contribution of £0.800m towards Inverness Flood Prevention works.

6. 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:

31/03/14 £000	Investment Property at Fair Value	31/03/15 £000
	Common Good Fund	
21,272	Inverness	22,115
6,473	Nairn	6,475
260	Tain	258
55	Dornoch	-
150	Dingwall	150
99	Fortrose	106
43	Cromarty	44
94	Invergordon	94
<u>28,446</u>		<u>29,242</u>

7. Intangible assets

2013/14 £000		2014/15 £000
	Fishing Licence - Tain	
27	As at 1 April 2014	26
-	Revaluation	(9)
(1)	Amortisation	(1)
<u>26</u>	As at 31 March 2015	<u>16</u>

8. Long Term Investments

31/03/14		31/03/15	
Cost £000	Valuation £000	Cost £000	Valuation £000
6,779	10,905	6,219	9,854
6	6	6	6
<u>6,785</u>	<u>10,911</u>	<u>6,225</u>	<u>9,860</u>

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

31/03/14 Units Held		31/03/15 Units Held	
Cost £000	Value £000	Cost £000	Value £000
135	44	-	-
4,847	8,951	4,193	7,722
1,269	1,382	1,917	2,023
528	528	109	109
<u>6,779</u>	<u>10,905</u>	<u>6,219</u>	<u>9,854</u>

9. Cash and cash equivalents

31/03/14 £000		31/03/15 £000
<u>763</u>	Balance with Highland Council Loans Fund	<u>1,900</u>

10. Usable Reserves**Common Good Funds**

Fund	Balance at 1/04/14 £000	Movement 2014/15 £000	Balance at 31/03/15 £000
Inverness	6,366	15	6,381
Nairn	76	280	356
Tain	446	(45)	401
Dornoch	219	(5)	214
Dingwall	146	10	156
Fortrose	161	12	173
Cromarty	17	4	21
Invergordon	60	2	62
Total	<u>7,491</u>	<u>273</u>	<u>7,764</u>

11. Unusable Reserves**Revaluation Reserve**

Fund	Balance at 1/04/14 £000	Revaluations 2014/15 £000	Balance at 31/03/15 £000
Inverness	1,452	611	2,063
Nairn	60	-	60
Tain	13	81	94
Dornoch	22	-	22
Fortrose	254	-	254
Invergordon	85	-	85
Total	<u>1,886</u>	<u>692</u>	<u>2,578</u>

12. Capital Adjustment Account

Fund	Balance at 1/04/14 £000	Revaluations 2014/15 £000	Depreciation and amortisation £000	Balance at 31/03/15 £000
Inverness	21,272	845	-	22,117
Nairn	6,473	2	-	6,475
Tain	488	(12)	(10)	466
Dornoch	55	(55)	-	-
Dingwall	150	-	-	150
Fortrose	99	7	-	106
Cromarty	43	-	-	43
Invergordon	94	-	-	94
Total	<u>28,674</u>	<u>787</u>	<u>(10)</u>	<u>29,451</u>

13. Available for Sale Reserve

2013/14		2014/15
£		£
3,747	Balance at 1 April 2014	4,125
378	Upward revaluation of investments	724
-	Accumulated gains on assets sold	(1,215)
<u>4,125</u>	Balance at 31 March 2015	<u>3,634</u>

14. Financial Instrument balances

Categories of Financial Instruments

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

31/03/14			31/03/15	
Long term £000	Current £000		Long term £000	Current £000
10,911	-	Investments	9,860	-
-	763	Cash	-	1,900
-	34	Debtors	-	-
-	92	Creditors	-	363

15. Cashflow statement – Adjustments for non-cash movements

2013/14		2014/15
£000		£000
	Non-cash items	
10	Depreciation and impairments	10
2,399	Revaluation of investments	(2,228)
390	Loan written off	-
	Items on accruals basis	
63	(Increase)/decrease in debtors	34
(838)	Increase/(decrease) in creditors	271
<u>2,024</u>		<u>(1,913)</u>

16. Cashflow statement – investing activities

-	Proceeds from long term investments	<u>2,000</u>
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17. 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.

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

ACCOUNTING POLICIES

The Trust Fund accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 1 to the financial statements. However, the following statements include the accounts of Highland Council Charitable Trusts and Highland Charities Trust, which have been prepared in accordance with the Accounting and Reporting by Charities: Statement of Recommended Practice (2005).

The Highland Charities Trust commenced on 6th March 2014, however, the audited accounts for 2013/14 reflect the full financial year from 1st April 2013 to 31 March 2014. For 2014/15 OSCR requires the accounting period to cover the 6th March 2014 to 31st March 2015, which is reflected in the following statements. The period 6th March 2014 – 31st March 2014 is therefore included in both 2013/14 and 2014/15 figures. The amounts included are minimal (£895 receipts and £158 payments), and do not have a material impact on these accounts.

RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2015

2013/14				2014/15		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(364)	(13)	(191)	Receipts	(336)	(19)	(178)
326	9	176	Payments	50	5	189
(38)	(4)	(15)	(Surplus)/deficit for the year	(286)	(14)	11

BALANCE SHEET AS AT 31 MARCH

31 March 2014		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
100	-	-
147	846	1,104
<hr/>		
1,091	663	823
<hr/>		
1,338	1,509	1,927
<hr/>		
1,069	1,154	816
269	355	1,111
<hr/>		
1,338	1,509	1,927
<hr/>		

Non current assets

Property, plant and equipment
Investments

Current assets

Debtor - Highland Council Loans Fund

Net assets

Capital funds
Revenue funds

Total funds

31 March 2015		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
100	-	-
867	17	1,142
<hr/>		
1,200	696	780
<hr/>		
2,167	713	1,922
<hr/>		
1,898	368	903
269	345	1,019
<hr/>		
2,167	713	1,922
<hr/>		

CHARITABLE TRUSTS

Highland Council administers two registered Scottish Charities which are for the benefit of various specific causes. Annual accounts have been prepared for each of the 2 charities under the Office of the Scottish Charities Register Regulations.

At 31 March 2015 the balances and investments held are as follows:

Fund Balance £000	31 March 2014		Charity	Scottish Charity Number	Fund Balance £000	31 March 2015	
	Investments at cost £000	Investments at valuation £000				Investments at cost £000	Investments at valuation £000
203	26	33	Highland Charities Trust	044714	193	5	9
1,135	121	1,501	Highland Council Charitable Trusts	025079	1,974	962	2,403
1,138	147	1,534	Total Charitable Trusts		2,167	967	2,412

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 2015 the balances and investments held are as follows:

31 March 2014				31 March 2015			
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000	
811	793	793	Duncraig Endowment	-	-	-	
20	1	-	George Kerr Bequest	21	1	-	
29	-	-	Howard Doris fund – Plockton High School	29	-	-	
260	45	389	Inverness Royal Academy Educational Trust	274	16	391	
135	-	-	Manson Bequest – Keiss	134	-	-	
128	-	-	Manson Bequest – Nairn and Ardclach	128	-	-	
14	-	-	Miss B G Angus Executory	14	-	-	
112	8	5	Other Educational Trusts	113	-	-	
1,509	847	1,187	Total Educational Trusts	713	17	391	

Note – Duncraig Endowment has been transferred to a Charitable Trust during the year.

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 2014				31 March 2015			
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000	
768	676	1,182	Inverness Burial Grounds Fund	715	691	1,277	
447	397	683	Inverness Benevolent Funds	491	449	750	
62	-	-	Social Work Amenity Funds	64	-	-	
152	-	-	Inverness – Other Trust Funds	151	-	-	
7	2	3	Badenoch and Strathspey Trust Funds	7	2	4	
152	17	17	Caithness Trust Funds	160	-	-	
87	1	2	Lochaber Trust Funds	118	-	1	
81	3	3	Nairn Trust Funds	81	-	-	
143	8	10	Ross and Cromarty Trust Funds	108	-	-	
2	-	-	Skye and Lochalsh Trust Funds	2	-	-	
25	-	-	Sutherland Trust Funds	25	-	-	
<u>1,926</u>	<u>1,104</u>	<u>1,900</u>	Total other trust funds	<u>1,922</u>	<u>1,142</u>	<u>2,032</u>	

GROUP ACCOUNTS

GROUP ACCOUNTS**GROUP MOVEMENT IN RESERVES STATEMENT 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 2013/14	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

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	(2,676)	(2,765)	(290)	(5,731)
Other Comprehensive Expenditure and Income	(48,355)	(1,618)	(329)	(50,302)
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 MOVEMENT IN RESERVES STATEMENT 2014/15

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 2014 brought forward	40,340	7,328	1,885	1,669	2,409	31,703	85,334	797,336	882,670
Movement in reserves during 2014/15									
Surplus/(deficit) on provision of services	5,882	4,252	-	-	-	-	10,134	-	10,134
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	96,159	96,159
Total Comprehensive Expenditure and income	5,882	4,252	-	-	-	-	10,134	96,159	106,293
Adjustments between accounting basis and funding basis under regulations	(2,196)	(4,252)	317	-	-	-	(6,131)	6,131	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,686	-	317	-	-	-	4,003	102,290	106,293
Transfers (to)/from other statutory reserves	(1,786)	-	-	42	375	(1,072)	(2,441)	2,441	-
Increase/(decrease) in 2014/15	1,900	-	317	42	375	(1,072)	1,562	104,731	106,293
Balance at 31 March 2015 carried forward	42,240	7,328	2,202	1,711	2,784	30,631	86,896	902,067	988,963

GROUP 2014/15	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 2014 brought forward	882,670	38,114	(4,075)	916,709
Movement in reserves during 2014/15				
Surplus/(deficit) on provision of services	10,134	691	(327)	10,498
Other Comprehensive Expenditure and Income	96,159	(1,109)	(371)	94,679
Total Comprehensive Expenditure and Income	106,293	(418)	(698)	105,177
Adjustments between accounting basis and funding basis under regulations	-	-	-	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	106,293	(418)	(698)	105,177
Transfers (to)/from other statutory reserves	-	-	-	-
Increase/(decrease) in 2014/15	106,293	(418)	(698)	105,177
Balance at 31 March 2015 carried forward	988,963	37,696	(4,773)	1,021,886

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GROUP BALANCE SHEET

31/03/14 £000		31/03/15 £000
2,111,753	Property, plant & equipment	2,264,115
1,512	Heritage Assets	10,660
80	Intangible assets	-
11,972	Long term investments	10,978
(4,075)	Investments in associates and joint ventures	(4,773)
41,314	Long term debtors (net of impairment)	45,417
<u>2,162,556</u>	Long term assets	<u>2,326,397</u>
	Short term intangibles	632
31,092	Short term investments	22,038
5,616	Inventories	3,338
53,210	Short term debtors	43,483
41,525	Cash and cash equivalents	42,800
989	Assets held for sale	3,914
<u>132,432</u>	Current assets	<u>116,205</u>
(56,608)	Short term borrowing	(43,719)
(102,367)	Short term creditors	(98,504)
(1,224)	Provisions	(1,363)
(5,054)	Capital Grants Receipts in Advance	(8,024)
<u>(165,253)</u>	Current liabilities	<u>(151,610)</u>
(694,565)	Long term borrowing	(726,972)
(518,461)	Other long term liabilities	(542,134)
<u>(1,213,026)</u>	Long term liabilities	<u>(1,269,106)</u>
<u>916,709</u>	Net assets	<u>1,021,886</u>

GROUP BALANCE SHEET (CONTINUED)

31/03/14		31/03/15	31/03/15
£000		£000	£000
1,885	Capital Receipts Reserve	2,202	
1,669	Renewal and Repair Fund	1,711	
31,703	Capital Fund	30,631	
2,409	Insurance Fund	2,784	
40,340	General Fund	42,240	
7,328	Housing Revenue Account	7,328	
85,334	Usable reserves		86,896
353,235	Revaluation Reserve	438,165	
878,289	Capital Adjustment Account	922,107	
(33,075)	Financial Instruments Adjustment Account	(31,052)	
(392,349)	Pensions Reserve	(418,069)	
(8,764)	Employee Statutory Adjustment Account	(9,084)	
797,336	Unusable reserves		902,067
34,039	Share of group and associate reserves		32,923
916,709	Total reserves		1,021,886

The unaudited Annual Accounts were issued on 22 June 2015 and the audited Annual Accounts were authorised for issue on 30 September 2015.

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

Director of Finance

30 September 2015

GROUP CASH FLOW STATEMENT

2013/14		2014/15
£000		£000
(5,730)	Net (deficit)/surplus on the provision of services	10,498
65,398	Adjust net (deficit)/surplus on provision of services for non-cash movements	102,991
<u>(22,679)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(66,060)</u>
36,989	Net cash inflow from operating activities	47,429
(134,463)	Investing activities	(133,214)
<u>75,192</u>	Financing activities	<u>87,060</u>
(22,282)	Net increase or decrease in cash and cash equivalents	1,275
<u>63,807</u>	Cash and cash equivalents at 1 April 2014	<u>41,525</u>
<u>41,525</u>	Cash and cash equivalents at 31 March 2015	<u>42,800</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 40.

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 £32.923m. 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	(570)	(3,390)
Inverness Common Good	3,195	34,194
Nairn Common Good Fund	(11)	6,892
	<u>2,614</u>	<u>37,696</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.

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 2014/15 were as follows:

Results for the year		Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		394	(5,674)
Highland and Islands Transport Partnership		41	(856)
		<u>435</u>	<u>(6,530)</u>

Group share		Deficit on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		316	(4,539)
Highland and Islands Transport Partnership		11	(234)
		<u>327</u>	<u>(4,773)</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
- Caledonia Community Leisure t/a Inverness Leisure

6. Events after the Balance Sheet date

The Unaudited Annual Accounts were issued by the Director of Finance on 22 June 2015 and the audited Annual Accounts were authorised for issue on 30 September 2015. 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 2015 the financial statements have been adjusted in all material respects.