



The Highland Council
Statement of Accounts
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2011 - 2012

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ABOUT THE HIGHLAND COUNCIL

Highland Council is one of 32 all-purpose councils in Scotland, serving a population of 222,370 across an area of 26,484 sq km.

The Council has 80 members who were elected for a five year period from May 2012 serving 22 multi-member wards. Details of elected members are available at:

www.highland.gov.uk/yourcouncil/yourcouncillors

The political representation is as follows:

35	Independent
23	Scottish National Party
14	Liberal Democrat
8	Labour

Functions

The Highland Council is directly responsible for the provision of the following services:

Strategic Planning and Development
Local Planning and Development Control
Industrial Development
Roads, Highways and Bridges
Harbours and Piers
Car Parks
Parks and Open Spaces
Environmental Protection
Trading Standards
Social Work
Housing
Education
Libraries and Museums
Public Halls
Community Councils
Registrar
Emergency Planning
Licensing

Joint Boards serving the Highlands area provide the following services:

Police
Fire
Electoral Registration
Valuation of Land and Property

In addition to the above the Council participates in the following partnerships:

Transport – The Highlands and Islands Transport Partnership
Criminal Justice – Northern Criminal Justice Partnership
Procurement – Scotland Excel
Health and Social Work – Highland Community Care Partnership
Children and Young People – Joint Committee for Children and Young People

EXPLANATORY FOREWORD BY DIRECTOR OF FINANCE

1. Statement of Accounts (the Accounts)

The Statement of Accounts reports on the financial performance of The Highland Council for the year ended 31 March 2012. It excludes the transactions, assets and liabilities of the Common Good Funds, Charitable, Educational and Other Trust Funds which are disclosed separately starting on page 116.

Group Accounts of The Highland Council are included from page 131. The group comprises The Highland Council, its subsidiaries (Inverness Common Good Fund and Nairn Common Good Fund) and its associates. The associates are the Council's share of the Northern Joint Police Board, the Highland & Islands Fire Board, the Highland & Western Isles Joint Valuation Board and the Highland & Islands Transport Partnership. The Council's share of each is based on the proportion of voting rights of Highland Council Members.

The Accounts comprise:

Movement in Reserves Statement

This statement shows the movement in the year on all 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.

Comprehensive Income and Expenditure Statement

This statement shows the 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.

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.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year.

Accounting Policies and Notes to the Accounts

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

Housing Revenue Account (HRA)

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

Council Tax Income Account

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

Non Domestic Rate Account

The Non Domestic Rate Account reflects the statutory obligation of the Council as a billing authority to maintain a separate Non Domestic Rate Account. The net income is paid to the Scottish Government as a contribution to the national non domestic rates pool.

2. Changes in accounting policies

Heritage Assets

2011/12 is the first year in which FRS 30 "Heritage Assets" should be applied.

Highland Council owns museum collections at two principal facilities, the Highland Folk Museum and Inverness Museum and Art Gallery.

The core collections of the Highland Folk Museum number approximately 10,000 items mainly representing Highland rural culture from the 1700s to the present day. The Inverness Museum & 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 costume, arms and armour, trades and crafts, Jacobites, maps, fine art and applied art. There are a further circa 35,000 natural sciences specimens; mineralogy, palaeontology, invertebrate zoology, vertebrate zoology, and botany.

From 1 October 2011 both Museums transferred to High Life Highland (HLH), an arm's length company with charitable status which is, on behalf of the Highland Council, caring for and giving access to the collections via a Service Delivery Contract. Although both Museum sites and their collections remain in the ownership of the Highland Council, the agreement is for HLH to manage, maintain and appropriately develop the collections and to maintain and develop the standards of collection management.

During 2011/12 there have been costs on the acquisition of heritage items, however these are deemed to be immaterial. The monetary value of heritage assets acquired by donation is generally unknown. It is not policy, practicable or affordable to consider obtaining valuations for these items.

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

3. Summary of financial results

3.1 Balances

The movements and balances on the Council's revenue reserves for 2011/12 are summarised below:

	Balance at 1/04/11 £m	Use of earmarked balances £m	Increase in earmarking £m	Surplus £m	Balance at 31/03/12 £m
Non-earmarked balances	18.041	5.519	(1.655)	1.568	23.473
Earmarked Balances					
Devolved school management	2.188	-	0.582	-	2.770
Spend to Save Fund	1.475	(0.666)	0.051	-	0.860
Joint Ventures Fund	0.429	(0.429)	-	-	-
IT Investment Funds	1.316	-	0.141	-	1.457
Central Energy Efficiency Fund	0.742	-	0.005	-	0.747
Energy Efficiency Investment Fund	0.061	(0.061)	-	-	-
Winter Maintenance	0.344	(0.344)	-	-	-
Building Maintenance costing project	0.781	(0.250)	0.006	-	0.537
Employability Service	0.437	(0.437)	-	-	-
Caithness Heat and Power	1.161	(0.552)	0.008	-	0.617
Caithness Heat and Power (procurement)	0.046	(0.030)	-	-	0.016
Learning and teaching	0.330	(0.330)	0.692	-	0.692
Fire Board	0.351	(0.351)	-	-	-
Customer services review	0.132	(0.133)	0.001	-	-
Future change implementation	3.000	(1.936)	0.019	-	1.083
IRA Gaelic extension	-	-	0.150	-	0.150
Total earmarked balances	12.793	(5.519)	1.655	-	8.929
General Fund Total	30.834	-	-	1.568	32.402

	Balance at 1/04/11 £m	Deficit £m	Transfer from capital fund £m	Balance at 31/03/12 £m
Housing Revenue Account	7.524	(1.273)	0.553	6.804

In accordance with CIPFA guidance "Reserves and Balances in a Local Authority" the Council has determined that General Fund balances should be retained for contingencies and for specific initiatives. The Council keeps its level of balances under review and aims to keep a sum of up to 3% of the revenue budget, approximately £17.5m, to be held as a contingency in non earmarked balances.

3.2 General Fund Services

The financial results for the General Fund services for the year are shown below. This presentation differs from that shown in the Comprehensive Income and Expenditure Statement which is set out 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 2011/12 results against budget, on the basis of the internal service analysis of the Council.

	Notes	Budget	Actual	Over/ (Under)
		£m	£m	£m
Education, Culture and Sport	1	235.824	235.134	(0.690)
Joint Committee for Children and Young People	2	40.687	41.086	0.399
Housing (non HRA), Property and Architectural Services	3	10.000	8.916	(1.084)
Building Maintenance		(0.314)	(0.397)	(0.083)
Planning and Development	4	9.469	8.752	(0.717)
Social Work		94.184	94.184	-
Transport, Environment and Community	5	62.483	64.631	2.148
Chief Executive's Office		27.171	27.139	(0.032)
Finance Services		6.906	6.857	(0.049)
Housing Benefits	6	0.371	0.472	0.101
		486.781	486.774	(0.007)
Joint Board Requisitions				
Northern Joint Police Board	7	19.627	18.855	(0.772)
Highland and Islands Fire Board	8	16.333	15.788	(0.545)
Highland and Western Isles Valuation Joint Board		2.343	2.300	(0.043)
Highland and Islands Transport Partnership		0.089	0.089	-
Non Domestic Rate Relief		0.583	0.608	0.025
Loan Charges	9	54.802	50.911	(3.891)
Interest on Revenue Balances	10	(0.180)	(0.429)	(0.249)
Interest and Investment Income		-	(0.008)	(0.008)
Total General Fund Services		580.378	574.888	(5.490)
Appropriations to/from Reserves				
Use of Repairs and Renewals Fund		0.168	0.179	0.011
Insurance Fund		0.536	0.548	0.012
Capital Fund		(0.275)	(0.227)	0.048
Affordable Housing	11	2.600	2.891	0.291
Caithness Heat and Power Ltd	12	-	0.446	0.446
Amount to be funded from Taxpayers/ General Fund Balance		583.407	578.725	(4.682)

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	Notes	Budget £m	Actual £m	Over/ (Under) £m
Amount to be funded from Taxpayers/ General Fund Balance		583.407	578.725	(4.682)
Revenue Support Grant		(375.334)	(375.334)	-
Non-domestic Rates		(95.372)	(95.454)	(0.082)
Council Tax	13	(108.639)	(110.147)	(1.508)
		4.062	(2.210)	(6.272)
Unallocated pressures/growth	14	1.089	-	(1.089)
Job evaluation	15	(0.361)	0.642	1.003
Supplementary estimates	16	(1.677)	-	1.677
Surplus on unearmarked General Fund balance		3.113	(1.568)	(4.681)
Transfer from earmarked balances	17	(4.709)	-	4.709
Transfer to earmarked balances	18	1.596	-	(1.596)
Surplus on earmarked General Fund balance		(3.113)	-	3.113
Total General Fund surplus		-	(1.568)	(1.568)

The General Fund outturn was a surplus of £1.568m for the year, although after the application of earmarked balances to the general fund, the non earmarked balance has increased by £5.432m. Throughout the year The Council has again focussed on maximising savings wherever possible, in preparation for setting budgets in what are expected to be financially challenging years ahead. The main variations from budget during the year were as follows:

1. The Education Culture and Sport Service experienced various pressures during the year but by working hard to deliver compensating savings was able to come in under budget by £0.690m. There was a one off saving of £0.360m from the one day industrial action; also the relatively mild winter and increased efficiency in heating systems created a saving of £0.384m in energy costs.
2. In The Joint Committee for Children and Young People out of authority placements placed a significant pressure of £1.7m on the 2012 budget. This was mitigated by savings in other budget lines such as family resources, additional support for learning and educational psychology to produce a net overspend at the year end of £0.399m.
3. The Housing and Property (Non HRA) budget shows a favourable variance of £1.084m resulting from staffing vacancy savings of £0.500m; and an increase of £0.723m in fee income from additional capital work. These savings were partly offset by £0.136m additional expenditure in the Homelessness part of the budget for repairs to leased properties being returned to landlords.
4. In response to lower than budgeted fee income levels the Planning and Development Service received a supplementary budget feed of £0.577m and aligned with this undertook to maximise savings within the remaining budget. Consequently the year end position is an overall under spend of £0.717m mainly due to staff savings from vacancies across the Service of £0.425m and from a planned under spend in the employability budget of £0.248m. There was an under recovery of £0.058m on the adjusted fee income budget.

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5. The budget for Transport, Environmental and Community Services was over spent by £2.148m as a result of several budget pressures experienced by the Service throughout the year. The major pressure related to the Stromeferry bypass and associated emergency transport costs leading to unbudgeted expenditure of £1.606m.
6. The housing benefit budget is over at the year end by £0.101m due to a loss of Government subsidy on certain tenure types.
7. The saving of £0.772m on the requisition to The Northern Joint Police Board is the Highland Council's share of the Board's underspend in 2011/12.
8. Highland Council's share of the requisition for the Highlands and Islands Fire Board for 2011/12 will be £0.545m less than budgeted due to the costs associated with the Highland area being less than anticipated when the budget was set.
9. Loan charges are under budget by £3.891m due mainly to an under spend on the capital programme; lower levels of long term borrowing and lower than estimated interest rates across the borrowing periods.
10. The budget for income from interest on revenue balances (IORB) shows a positive variance in the near final position of £0.249m due to a higher than budgeted IORB rate being applied and better than anticipated cash flows.
11. An additional £0.291m from second homes council tax was allocated to the affordable homes budget heading.
12. Charges relating to Caithness Heat and Power Ltd of £0.446m were incurred in the year; made up of £0.366m from earmarked balance to provide for a supplementary loan and a further charge of £0.079m to provide for non payment of interest.
13. Council Tax income was £1.508m greater than budgeted due to in the main to an increase in the collection rate and a small increase in the tax base.
14. On setting the budget for 2011/12 the Council set aside £3.155m for unallocated pressures and growth. At the year-end £1.089m of this budget was unspent.
15. A budget of £0.361m for job evaluation back pay costs was established during the year and made available to the Services to meet these charges. A provision of £0.642m was established at the year end to meet further back pay costs expected to be paid out in the near future.
16. During the year the council agreed to make a supplementary budget estimate of £0.577m to Planning and Development Service for the loss of planning and building warrant fee income and £1.100m to the Chief Executives Service to mitigate timing differences in the delivery of savings from the ICT contract.
17. £4.709m was added to the Service budgets from earmarked balances during the year. The main transfers related to £1.936m from the Future Change ear marked fund to meet the costs of changes in the way services are delivered; £0.666m from the Spend to Save fund; £0.201m for Caithness Heat and Power; £0.344m from the Winter Maintenance fund; £0.351m for additional Fire requisition; £0.437m for employability services in planning and development and £0.133m for the customer services review.
18. In the year £1.596m was added into earmarked balances in order to make the funding available for future years as follows: £1.422m from Education Culture and Sport budget relating the Gaelic Grant for the IRA extension (£0.150m), Learning and Teaching funding (£0.690m) and DSM balances (£0.582m) and £0.174m from the Chief Executive's Service regarding ICT investments funds (£0.131m) and returning unused Spend to Save funding (£0.042m).

3.3 Housing Revenue Account (HRA)

The financial results for the Housing Revenue Account are shown below. This presentation differs from that shown in the Housing Revenue Account Income and Expenditure Statement which is set out in accordance with the SerCOP and allows comparison to be made with other Scottish Local Authorities. The following allows comparison of the 2011/12 results against budget.

	Note	Budget £m	Actual £m	Over/ (Under) £m
Staff costs	1	5.567	5.199	(0.368)
Other costs	2	24.842	26.404	1.562
Loan charges and interest	3	14.631	13.680	(0.951)
		45.040	45.283	0.243
Income to HRA		(45.040)	(45.283)	(0.243)
Total		-	-	-

Notes

1. The underspend on staff costs arose due to unfilled vacancies and contributions to the costs of funding building maintenance apprentices being lower than budget
2. Due to underspends in staff costs and loan charges and interest the amount available to fund capital projects from current revenue was greater than budget
3. Loan charges and interest were under budget due to reduced capital spend and favourable interest rates throughout the year

3.4 Group Financial Results

The financial results for the Group are summarised below:

2010/11 £m		2011/12 £m
400.807	Total comprehensive Income and Expenditure	176.884
82.298	Balances – usable reserves	83.501
803.099	Balances – unusable reserves	625.012

3.5 Capital Programme

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

	Notes	Net expenditure		Over/ (under) £m
		Budget £m	Actual £m	
General Fund				
Education, Culture and Sport	1	33.387	26.748	(6.639)
Housing (non HRA)	2	3.801	2.550	(1.251)
Planning and Development	3	1.317	0.802	(0.515)
Transport, Environmental and Community	4	18.136	23.959	5.823
Social Work	5	2.816	1.686	(1.130)
Strategic Property Management	6	5.125	5.827	0.702
Accommodation Rationalisation		0.298	0.297	(0.001)
Energy Management	7	1.787	4.120	2.333
Chief Executives Service	8	10.182	6.344	(3.838)
Discretionary Fund	9	0.985	-	(0.985)
Total		<u>77.834</u>	<u>72.333</u>	<u>(5.501)</u>
Housing HRA	10	<u>25.468</u>	<u>23.621</u>	<u>(1.847)</u>

1. The near final position on the Education Culture and Sport programme is an under spend of £6.639m. The under spend is mainly due to slippage on several lines of the budget, including Ben Wyvis and Aviemore primary schools.
2. The non HRA capital programme has a year end under spend of £1.251m. £0.950m of this relates to National Housing Trust advances which are due to be paid out in early 2012/13. Also there was an under spend of £0.314m on improvement grants due to fewer than expected claims.
3. The Planning and Development programme is under spent by £0.515m at the year end due to slippage on several projects in the programme, including unexpected delays in the Nairn High Street project and the Storr Woodland restructuring and enhancement project.
4. In Transport Environmental and Community Services there is an over spend of £5.823m. The main variance relates to the purchase of vehicles where the budget is over by £4.195m, the budget for the loan charges to cover this expenditure will be removed from the 12/13 revenue budget. The other factors influencing the outturn position are a £0.845m estimated over spend on bridge schemes; additional costs in awarding a replacement contract for work at Seater landfill site leading to an over spend of £0.717m; and the structural works budget estimated at being over by £0.869m at the year end from additional works carried out as a result of the previous two severe winters.
5. The underspend of £1.130m on the Social Work capital budget is due in the main to delays in starting phase 1 work on the care of the elderly investment project and on some costs coming in under budget. There were delays in identifying a site for the Children's residential unit in Wick, the resulting slippage also contributing to the year end under spend position.
6. The Strategic Property Management budget has a year end over spend of £0.702m. During the year there had been approval for £0.500m acceleration on this programme in relation to strategic asset management. Additionally £0.590m was incurred on essential emergency expenditure on the Dingwall Leisure Centre re-roofing project. Under spends in other aspects of the programme helped to mitigate the impact.

7. The Energy Management budget position at the year end is an over spend of £2.333m this is mainly due to accelerated spend on several projects following a decision at Council in October to increase the programme by £2.000m for biomass boilers; installation of new heating and lighting controls to schools and offices; and the installation of energy efficient lamps to street lights.
8. An under spend of £3.838m on the Chief Executive's programme is largely due to delays in the telephony aspect of the ICT contract which has caused slippage in the year of £3.463m. Also projects on office Block A refurbishment and the Fort William town centre regeneration completed under budget in the year by £0.197m in total.
9. A discretionary capital fund of £1.206m was in place at the start of the year. During the year several projects were funded from this and the unspent balance at the year end is £0.985m.
10. The gross expenditure for HRA was £23.621m; an under spend of £1.847m. Income from the sale of houses was £1.237m more than budgeted. A final revenue contribution of £4.588m has been made to fund capital expenditure, compared to a budgeted contribution of £3.629m; £0.707m has been contributed from the land banking fund (budget £0.553m) and a further £0.233m of unbudgeted income was also received. The overall effect is that the borrowing requirement is £4.430m less than anticipated.

3.6 Major Changes in Functions and Service Delivery

Statutory Functions:

There have been no major change in statutory functions during 2011/12.

On 16 January 2012 the Scottish Government introduced the Police and Fire Reform (Scotland) Bill 2012 to Parliament. This Bill relates to the establishment of single Police and Fire Services in Scotland, with the new Services expected to be live from 1 April 2013. Arrangements for the transition to the new single services remain under discussion, however, once implemented the new arrangements will represent a significant change to local authority statutory functions in the 2013/14 financial year.

Changes in Functions and Service Delivery:

As part of the budget proposals agreed for the 2012/13 budget, there are a number of changes to service delivery arrangements which will be implemented during the course of 2012/13. Costs and savings related to these changes will arise during 2012/13 and subsequent years. A sum of £1.083m remains earmarked in General Fund revenue balances to provide for the costs of implementing these and prior year changes.

In relation to other major changes in Service delivery arrangements, the following changes are highlighted:

High Life Highland Arms Length Organisation (ALO) – on 1 October 2011 the Council transferred the management and delivery of Community, Learning and Leisure Services (CLL) to a new ALO, High Life Highland. This resulted in the transfer of over 1,000 staff from the Council to the ALO, with the Council now providing funding of approximately £14m p.a. to the ALO for the management and delivery of these services.

Planning for Integration – on 21 March 2012, the Highland Council agreed the partnership arrangement relating to new integrated health and social care services. With effect from 1 April 2012, the Highland Council has a partnership agreement with NHS Highland, relating to the delivery of Health and Social Care Services. From this date, NHS Highland has lead agency responsibility for Adult Services and Highland Council for Children's Services. As a result of the agreement, approximately 1,400 staff will transfer from Highland Council to NHS Highland for adult services, with approximately 200 staff transferring from NHS Highland to Highland Council for Children's Services. In respect of adult services, the financial contribution payable by The Highland

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Council to NHS Highland for the first financial year is approximately £89.8m. In respect of Children's services, the financial contribution payable by NHS Highland to Highland Council for the first financial year will be approximately £8.1m.

Revenue and Capital Financial Plans:

On 9 February 2012 the Highland Council agreed revenue budgets for the 2012/13 financial year for its General Fund and Housing Revenue Account (HRA) services. Given the funding constraints prevailing, both budgets were set with saving targets and proposals agreed, to help balance the budget for the year. A summary of key aspects of the budget are set out below. Further details can be found on the Council's website at the following location:

<http://www.highland.gov.uk/yourcouncil/committees/thehighlandcouncil/2012-02-09-hc-min-sp.htm>

	2012/13	Change from prior year	
	agreed budget £m	£m	%
General Fund (net)	602.018	(2.878)	(0.500)
HRA (gross)	45.550	0.640	1.400

The General Fund revenue budget included an additional £16.046m growth and pressure provision for a number of service areas including; £4.550m for preventative spend, £4.564m for inflation and cost increase pressures, and a £3.5m uncommitted contingency budget. Savings totalling £18.613m were also agreed to balance the budget, including: £4.099m from Education, Culture and Sport, £5.297m from Health and Social Care and £2.875m from TEC Services. A further £6.342m of savings were agreed for other service budgets and corporate savings.

The General Fund Capital Programme was agreed in May 2011, and since that time a number of changes have been agreed to the programme. On 5 April 2012 the Highland Council agreed the most recent changes to the programme, resulting in a current capital programme for 2012/13 – 2013/14 as shown below. A total indicative programme for subsequent years is also shown.

During the course of 2012 it is the intention to undertake a review of the capital programme leading to a new long-term capital programme being agreed.

	2012/13 Firm Programme £m	2013/14 Firm Programme £m	2014/15 – 2016/17 Indicative Programme £m
Gross General Fund Capital Programme April 2012	71.326	63.217	237.038
Change from May 2011 programme	+5.141	-6.517	+15.752

Some of the most significant projects by value within 5 year programme (including April 2012 programme revisions) include:

Sustainable school estate review projects £106m, River Ness Flood Prevention Scheme and Streetscape £22m, Wick High School £18m, Inverness West Link Road £17m, Lochaber High School phase III £11m, structural carriageway improvements £4.5m p.a.

In relation to the HRA capital programme, the Housing and Social Work Committee agreed on 11 January 2012 to a £25.411m programme for 2012/13. This programme included a level of over-programming, to reflect potential slippage in delivery of projects. The overall programme includes £19.485m for energy efficiency works, £1.106m for equipment and adaptations, £0.206m for free from serious disrepair, £4.424m modern facilities and services, and £0.190m stock condition survey.

Source of funds for capital investment:

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

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

Other Methods of Financing

Government and EC Capital Grants
 Lottery monies
 Private Finance Initiative/Public Private Partnership/Scottish Futures Trust
 Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers, and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4. Major Non-current Asset Acquisitions and Disposals

The General Fund and Housing Revenue Account capital programmes are geared towards improving and enhancing assets owned by the Council. During 2011/12 the major projects in the Education, Culture and Sport programme included the construction of schools at Aviemore and Lochaline and the refurbishment of Lochaber High School. In the Transport, Environment and Community programme the major projects were Inverness flood prevention measures and road structural works.

Assets sold in 2011/12	General Fund £m	HRA £m	Total £m
Net book value of assets sold	1.731	4.088	5.819
Capital receipts	(0.707)	(3.254)	(3.961)
Net loss on disposal	<u>1.024</u>	<u>0.834</u>	<u>1.858</u>

The main disposal in the General Fund was the Council Office, Slioch, Castle Street, Dingwall.

The Housing Revenue Account programme invested £23.2m in Council house stock during the year.

Sources of Funds for Capital Investment

Sources of funds, to meet the costs of the capital investment plans set out earlier are as follows:

Funding for Capital Investment Plans

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	48.046	48.440	48.669	37.800	37.800
Scottish Government Capital Grants	26.000	26.000	26.000	26.000	26.000
Capital Receipts	2.881	2.881	2.881	0.750	0.750
CFCR	2.476	3.133	2.831	-	-
Other Income	2.039	0.765	2.553	2.145	0.345
Total Funding	81.442	81.219	82.934	66.695	64.895

In relation to PFI schemes, the Council has two schools PFI schemes which have been fully operational for a number of years. Annual revenue obligations under the scheme are fully provided for within the Council's revenue budget and total £22.2m in 2011/12 (£22.1m in 2010/11).

5. Capital Fund

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

		2011/12		
Total 2010/11 £m		Landbanking fund £m	Developers Contributions £m	Total Capital Fund £m
29.563	Balance at 1 April 2011	26.316	3.710	30.026
0.901	Developers contributions received	0.011	2.258	2.269
2.607	Council Tax income (second homes)	2.714	-	2.714
0.306	Land sales	0.364	-	0.364
0.120	Interest on balances	0.177	0.048	0.225
-	Other Income	0.004	-	0.004
0.078	Transfer from General Fund	0.236	-	0.236
(0.597)	Grants and contributions	(1.940)	(2.256)	(4.196)
(0.340)	Purchase of land	(0.315)	-	(0.315)
-	Loans written off	(0.207)	-	(0.207)
(2.043)	Contribution to HRA capital programme	(0.553)	-	(0.553)
1.645	Transfer from creditors at 1/04/11	-	2.214	2.214
(2.214)	Transfer to creditors at 31/03/12	-	(2.543)	(2.543)
30.026	Balance at 31 March 2012	26.807	3.431	30.238

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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

	Balance as at 1/04/11 £m	Loans written off in year £m	Loans advanced in year £m	Loans repaid in year £m	Balance as at 31/03/12 £m
Highland Housing Alliance	10.071	(0.207)	1.306	(1.390)	9.780
Albyn Housing Society	0.775	-	0.125	-	0.900
Knoydart Foundation	0.150	-	-	(0.106)	0.044
Highland Housing Association	0.065	-	-	(0.062)	0.003
	<u>11.061</u>	<u>(0.207)</u>	<u>1.431</u>	<u>(1.558)</u>	<u>10.727</u>

6. Retirement Benefits

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

Other Council employees may join the LGPS which locally is The Highland Council Pension Fund administered by Highland Council. Note 25 to the Core Statements details the income and expenditure charged based on estimates by the Fund's Actuary, and on the same basis shows that the Council has a net pension liability at 31 March 2012 of £289.466m. The liability is accounted for within the Balance Sheet and through the Pension Reserve.

The pension liability represents the best estimate of the current value of the pension benefits that will have to be funded by Highland Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2012.

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

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

7. Financial Ratios

31/03/11		31/03/12
	Reserves	
3.07%	Uncommitted General Fund balance as a percentage of annual budgeted net expenditure	4.02%
£8.564m	Surplus transferred to General Fund balance	£1.568m
	Council tax	
95.40%	In year collection rate	95.50%
18.43%	Council tax income as a percentage of overall funding	18.96%
	Financial management	
98.51%	Actual outturn as a percentage of budget	99.20%
£4.706m	Increase in uncommitted General Fund balance	£5.423m

8. Impact of economic climate

The majority of Council income is derived from the Scottish Government via the local authority grant settlement. With anticipated real term reductions arising from the UK Budget 2012 it is expected that this will continue to have a significant impact on local authority finances. The Council is acutely aware of these circumstances and incorporates the anticipated effects of them into all of its financial planning considerations.

Derek Yule B.Com, CPFA, IRRV(Hons)
 Director of Finance
 27 June 2012

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

The Director of Finance of The Highland Council is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code).

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

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

The Director of Finance has also:-

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

I, the Director of Finance of Highland Council, as Chief Financial Officer state that the Accounts for the year ended 31 March 2012 give a true and fair view of the financial position of the Council as at that date and its income and expenditure for the year then ended.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
27 June 2012

CORPORATE GOVERNANCE ASSURANCE STATEMENT

The Highland Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, elected members collectively and senior officers individually are responsible for putting in place proper arrangements for the governance of the Highland Council's affairs and the stewardship of the resources at its disposal. To this end, the Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). However this framework has since been updated with regard to the CIPFA Statement on the Role of the Chief Financial Officer in Public Service Organisations and a supporting CIPFA/SOLACE application note has been produced.

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

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

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

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

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

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

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

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Internal Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control. The Head of Internal Audit and Risk Management's responsibilities in this regard were discharged through the presentation of the Internal Audit Annual Report to the Audit and Scrutiny Committee on 9 June 2011.

To ensure proper Council scrutiny, the Council considered a report by the Assistant Chief Executive on progress with the 2010/11 Local Code of Corporate Governance on 23 June 2011 and set objectives for the financial year 2011/12. Internal Audit has undertaken a review of the implementation of the Code and the report shows that "substantial assurance" has been given and that the Annual Report on the Code of Corporate Governance will be reported to Audit & Scrutiny Committee and Council in September 2012.

The updated Local Code will include reference to the Statement on the Role of the Chief Financial Officer in Public Service Organisations. In the interim the requirements of the statement have been reviewed and assessed by the Assistant Chief Executive. The findings indicate that the Council complies with most of the additional governance requirements; however the future position will be strengthened by a revision of the Financial Regulations to clarify that the Director of Finance (as well as the Head of Internal Audit and Risk Management) also has direct access to the Audit and Scrutiny committee.

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

1. Complete outstanding issues which have been identified in the Local Code of Corporate Governance including agreeing the revised Scheme of Delegation for the Audit & Scrutiny Committee as part of the annual review of the scheme of delegation and completing the review of the Council's Whistle Blowing Policy.
2. Review the Code and report new Code for 2012/13 to Audit & Scrutiny Committee and the Council in September 2012. Key areas of work will include completion of the Corporate Improvement Programme (Phase 1) and commencement of Phase 2, to achieve further efficiency and service improvement; continue to roll out the Public Service Improvement Framework to all Services ensuring a robust approach to self assessment and continuous improvement; completion of the implementation of the performance and risk management system across all Services; continuing the delivery of Personal Development Plans for Members and for all staff and the new Member Development Programme; annual review of Standing Orders and Schemes of Delegation including the changes agreed by the new Council in respect of Committees and Delegations to Officers and reviewing the role of the Director of Finance in respect of the work of the Audit & Scrutiny Committee and continuing to ensure high levels of conduct from officers and Members in accordance with agreed codes of conduct.
3. Complete the three grade one actions highlighted in Internal Audit reports issued during 2010/11. These related to data quality monitoring and access control policies for the Social Work Service's CareFirst System. The agreed management actions on two of these issues have been completed and a draft network control policy has been reviewed by Internal Audit with regard to the third action required. A detailed follow up review is now in progress and the outcome of this will be reported to the Audit & Scrutiny Committee.

4. On 12 May 2011 the Council agreed to reinstate independent heating systems to Council properties in Wick and to terminate the procurement exercise to identify a third party to run the Heat & Power System in Wick. A private sector company has since established a heat and power company in Wick and is providing services to some houses. The Council's reinstatement of heating systems in the remaining properties is due to be completed in August 2012 and an application has been made to strike off CHAP as a company and it is envisaged that this will happen in September 2012.
5. The Council transferred the management and delivery of Community Learning and Leisure Services to a Council owned Company limited by guarantee with charitable status with an associated trading company, on 1 October 2011. The Company name is High Life Highland Ltd. A Service Delivery Contract has been agreed which clearly states the services and standards to be delivered by High Life Highland Ltd on behalf of the Council. The compliance with the requirements of this Contract is being closely monitored by a newly created post of Client Officer within the ECS Service and the new Adult & Children's Services Committee will receive regular progress reports and scrutiny of the arms length company will also be undertaken by the Audit and Scrutiny Committee.
6. On 1 April 2012 the Council and NHS Highland established a delivery model for the integration of care services in the Highlands. This new Lead Agency Model lead to staff within Adult Services transferring to NHS Highland and all staff responsible for Children's Services remaining with or transferring to the Council. While the statutory responsibility for the delivery of social care services and the budget remains with the Council it is now commissioning adult services from NHS Highland and Children's Services are being commissioned by NHS from the Council. The agreement between the two organisations includes a performance management framework which sets out the outcomes and performance required of both organisations and a new Adult & Children's Services Committee has been established which includes members from the Council and the Health Board. The next phase of work will be to achieve the full integration of services for Adults and Children and to develop collaboration between the two organisations in respect of central and support services.

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

A Hendry
Leader of the Council

A Dodds
Chief Executive

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

INDEPENDENT AUDITOR'S REPORT

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

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Funds Accounts, the 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 2011/12 (the 2011/12 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, the Director of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. 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 2011/12 Code of the state of the affairs of the group and The Highland Council as at 31 March 2012 and of the income and expenditure of the group and the Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Stephen O'Hagan CPFA
Assistant Director of Audit
Audit Scotland
7th Floor, Plaza Tower
East Kilbride, G74 1LW

25 October 2012

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 will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

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 covering 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 regulations permit the council to remunerate a Leader and Civic Head. The regulations set out the maximum salary that can be paid to the Civic Head.

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 maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council (Convener). The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £424,118 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.

In 2011/12 Highland Council had 21 senior councillors, including the Leader and Civic Head and the total salary, fees and allowances paid to these councillors was £481,785. 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 Convener, Provost of Inverness and Senior Councillors was agreed at a meeting of the full Council on 9 September 2010, and is available at [The Highland Council web site](#). This scheme has since been amended by the [report](#) presented to The Council on 27th October 2011 detailing the establishment of the North and South Planning Application Committees.

In addition to the Senior Councillors of the Council the regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice Convener of a Joint Board such as a Police 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 HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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 2011-12

2010-11			Senior Councillor Name	Responsibility	2011-12		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
37,880	1,012	38,892	Sandy Park	Convener	37,880	-	37,880
28,404	5,245	33,649	Michael Foxley	Leader of the Council's Administration	28,410	5,154	33,564
24,480	-	24,480	David Alston	Budget Leader and Chairman of Budget Information Group	24,480	25	24,505
19,962	-	19,962	John Finnie	Leader of the Opposition to 06.05.11 (full year equivalent salary £19,962)	429	-	429
*	*	*	Andrew Hendry	Leader of the Opposition from 07.05.11 (full year equivalent salary £19,962)	19,588	-	19,588
24,480	-	24,480	Jimmy Gray	City of Inverness Chairman and Provost of Inverness	24,480	-	24,480
24,480	312	24,792	William Fernie	Chair of Education Culture and Sport Committee	24,480	1,328	25,808
19,962	-	19,962	Andrew Millar	Vice Chair of Education Culture and sport Committee	19,962	-	19,962
24,480	3,711	28,191	Hamish Fraser	Chair of Gaelic Committee	24,480	2,333	26,813
24,480	-	24,480	Margaret Davidson	Chair of Housing and Social Work Committee	24,480	-	24,480
2,297	-	2,297	Robbie Rowantree	Vice Chair of Housing and Social Work Committee until 12.05.10 (full year equivalent salary £19,962)	*	*	*
17,665	-	17,665	Alasdair Christie	Vice Chair of Housing and Social Work Committee	19,962	-	19,962

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2010-11					2011-12		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
24,480	2,519	26,999	Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board	24,480	2,934	27,414
19,962	-	19,962	Isobel McCallum	Vice Chair of Planning Environment and Development	19,962	-	19,962
24,480	-	24,480	Carolyn Wilson	Chair of Resources Committee	24,480	-	24,480
2,297	-	2,297	Martin Rattray	Vice Chair of Resources Committee until 12.05.10	*	*	*
11,923	-	11,923	Graham Marsden	Vice Chair of Resources Committee from 13.05.10 until 16.12.10	*	*	*
5,742	2,915	8,657	Linda Munro	Vice Chair of Resources Committee	19,962	1,399	21,361
24,480	5,004	29,484	John Laing	Chair of Transport, Environment and Community Services	24,480	6,255	30,735
19,962	-	19,962	Brian Murphy	Vice Chair of Transport, Environment and Community Services	19,962	-	19,962
24,480	2,817	27,297	Jean Urquhart	Chair of Audit and Scrutiny Committee to 23.05.11 (full year equivalent salary £24,480)	17,422	-	17,422
*	*	*	David Fallows	Chair of Audit and Scrutiny Committee from 23.06.11 (full year equivalent salary £24,480)	22,592	477	23,069
19,962	3,072	23,034	Donnie Mackay	Chair of Caithness, Sutherland, and Easter Ross Planning Applications and Review Committee to 10.01.12 (full year equivalent salary £19,962)	19,141	2,894	22,035

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2010-11					2011-12		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
19,962	-	19,962	David Chisholm	Chair of Ross, Skye and Lochaber Planning Applications and Review Committee to 10.01.12 and Chair of North Planning Application Committee from 10.01.12	19,962	-	19,962
*	*	*	Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12	750	-	750
19,962	-	19,962	Peter Corbett	Chair of Highland Licensing Committee	19,962	-	19,962
8,860	-	8,860	Margaret Paterson	Chair of Ross, Skye and Lochaber Licensing Committee until 09.09.10	*	*	*
8,860	-	8,860	Alistair Rhind	Chair of Caithness, Sutherland and Easter Ross Licensing Committee until 09.09.10	*	*	*
28,410	-	28,410	Richard Durham	Convenor of Highland and Islands Fire Board	28,410	-	28,410
20,294	-	20,294	Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board	20,294	-	20,294

* post not held

Note that where members have acted as senior councillor for a part year, total remuneration includes both councillor and senior councillor elements.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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

2010-11			Councillor	Board Recharged	2011-12		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
-	2,516	2,516	Ian Ross (Vice Convenor)	Northern Joint Police Board	-	-	-
12,176	2,760	14,936	Richard Durham (Convenor)	Highland and Islands Fire Board	12,176	-	12,176
4,060	56	4,116	Helen Carmichael (Convenor)	Highland and Western Isles Valuation Joint Board	4,060	-	4,060

As Councillor Ian Ross is a senior councillor for Highland Council he receives no enhancement to his salary for his role as Vice Convenor of Northern Joint Police Board; therefore no salary is charged to Northern Joint Police Board.

Members allowances and expenses

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

2010/11		2011/12
£000		£000
1,439	Remuneration	1,418
257	Travel and Subsistence	254
29	All other expenses	45
1,725	Total	1,717

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 2012. 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.

Remuneration of Senior Employees

2010-11					2011-12		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Employee	Position	Salary, fees and allowances	Taxable expenses	Total Remuneration
61,248	322	61,570	William Alexander	Director of Social Work from 01.09.10 until 31.03.12 and Director of Health and Social Care from 01.04.12	105,450	-	105,450
105,450	83	105,533	Steve Barron	Director of Housing & Property also Depute Chief Executive from 01.10.11 (full year equivalent salary £115,995)	110,708	-	110,708
105,450	325	105,775	Stuart Black	Director of Planning, Environment and Development	105,450	-	105,450
44,202	-	44,202	Harriet Dempster	Director of Social Work until 31.08.10 (full year equivalent salary £105,450)	*	*	*
148,549	-	148,549	Alistair Dodds	Chief Executive **	154,659	-	154,659
105,450	126	105,576	Hugh Fraser	Director of Education Culture and Sport	105,450	-	105,450
115,995	-	115,995	Alan Geddes	Depute Chief Executive & Director of Finance until 30.09.11 (full year equivalent salary £115,995)	58,156	-	58,156
*	*	*	Derek Yule	Director of Finance from 31.10.11 (full year equivalent salary £105,450)	43,913	-	43,913
105,450	329	105,779	Neil Gilles	Director of Transport, Environmental and Community Services	105,450	-	105,450
105,450	-	105,450	Michelle Morris	Assistant Chief Executive	105,450	-	105,450

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

*post not held

** 2011-12: includes £14,547; paid to The Chief Executive in his role as Returning Officer and Counting Officer for Caithness, Sutherland and Easter Ross; Inverness, Nairn, Badenoch and Strathspey; and Ross, Skye and Lochaber, constituencies. During the year he received payment for duties relating to the Scottish Parliamentary Election in May 2011; the referendum on the Voting System in May 2011; The Crofting Board election and 3 local government by elections. 2010 -11: includes £8,437 paid to the Chief Executive in his role of Returning officer for Caithness, Sutherland and Easter Ross; Inverness, Nairn, Badenoch and Strathspey; and Ross Skye and Lochaber, constituencies in the UK Parliamentary Election in May 2010.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2011-12	2010-11
50,000 - 54,999	64	97
55,000 - 59,999	45	44
60,000 - 64,999	25	28
65,000 - 69,999	9	8
70,000 - 74,999	10	13
75,000 - 79,999	2	3
80,000 - 84,999	-	-
85,000 - 89,999	-	1
90,000 - 94,999	1	-
95,000 - 99,999	-	-
100,000 - 104,999	-	-
105,000 - 109,999	6	5
110,000 - 114,999	-	-
115,000 - 119,999	-	1
120,000 - 124,999	-	-
125,000 - 129,999	-	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	1	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. This quantifies all current and future costs to the Council resulting from these departures. None of the exit packages relate to compulsory redundancy. Included in the 2011/12 figures are 62 employees who were members of the pension fund (19 2010/11) the gross actuarial cost of these exit packages is £3.354m (£0.475m 2010/11) and the net savings from these severance packages, on an actuarial basis are £8.970m in 2011/12 (£1.381m 2010/11).

Number of employees 2010-11	Total Cost 2010-11 £	Cost Band £	Number of Employees 2011-12	Total Cost 2011-12 £
32	287,421	0 - 20,000	54	426,989
11	336,204	20,001 - 40,000	34	1,013,550
5	257,649	40,001 - 60,000	13	641,373
3	192,808	60,001 - 80,000	5	344,928
1	81,186	80,001 - 100,000	6	535,875
1	105,686	100,001 - 150,000	10	1,175,208
-	-	150,001 - 200,000	2	337,475
-	-	200,001 - 250,000	2	465,324
-	-	250,001 - 300,000	-	-
-	-	300,001 - 350,000	1	317,929
53	1,260,954	Total	127	5,258,651

2. Appointments

i) Councillors

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council.

During financial year 2011/12 the following changes to Senior Councillor positions were agreed:

Date	Councillor	Change
6 May	John Finnie	Ceased as Leader of the Opposition
7 May	Drew Hendry	Commenced as Leader of the Opposition
23 May	Jean Urquhart	Ceased as Chair of the Audit and Scrutiny Committee
23 June	David Fallows	Commenced as Chair of the Audit and Scrutiny Committee
10 January	Donnie Mackay	Ceased as Chair of Caithness, Sutherland and Easter Ross Planning Applications and Review Committee on the cessation of the committee.
10 January	David Chisholm	Ceased as Chair of Ross, Skye and Lochaber Planning Applications and Review Committee on the cessation of the committee, and commenced as Chair of the new North Planning Applications Committee.
10 January	Jimmy Gray	Ceased as Chair of Inverness, Nairn, Badenoch and Strathspey Planning Applications and Review Committee on the cessation of the committee. No payment had been received for holding this post.
17 January	Robert Wynd	Commenced as Chair of the new South Planning Applications Committee.

ii) Senior Employees

The appointment of Directors is agreed by an Appointments Panel of 11 members comprising of the Convenor of the Council, Leader of the Council's administration, the chair and vice chair of the Resources Committee, the chair and vice chair of the relevant Service Committee, 1 member of the Labour Group, 2 members of the Opposition Group, 1 member of the Independent members Group and 1 member of the Independent Alliance Group.

Directly resulting from the integration of health and social care services the establishment of Highland Council was adjusted to remove the post of Director of Social work and to add a new post of Director of Health and Social Care. On 1 April 2012 William Alexander takes up the Director of Health and Social Care post, having previously held the position of Director of Social Work. There is no change to the salary for the new post.

Other changes to Director positions during 2011/12 are:

- 30 September 2011 Alan Geddes retired from position of Director of Finance and Depute Chief Executive
- 31 October 2011 Derek Yule appointed as Director of Finance
- 1 October 2011 Steve Barron appointed as Depute Chief Executive and Director of Housing and Property

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.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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.

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.

Due to an increase in the consumer price index for 2011-12 the tiers for 2011-12 have been changed as follows:

Whole time pay	Contribution rate 2011-12
On earnings up to and including £18,500	5.5%
On earnings above £18,500 and up to £22,600	7.25%
On earnings above £22,600 and up to £30,900	8.5%
On earnings above £30,900 and up to £41,200	9.5%
On earnings above £41,200	12%

2010-11 contribution tiers and rates

Whole time pay	Contribution rate 2010-11
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

The employer's contribution rate is 290% of the rate paid by the member.

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 a 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 2012 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.12	Difference from March 2011
		31.03.12	31.03.11			
		£	£			
					£000	£000
Sandy Park	Convenor	7,800	7,909	Pension: Lump Sum:	3 3	1 -
Michael Foxley	Leader of the Council's Administration	5,273	5,273	Pension: Lump Sum:	2 2	1 -
David Alston	Budget Leader and Chairman of Budget Information Group	4,260	4,331	Pension: Lump Sum:	2 2	1 -
John Finnie	Leader of the Opposition to 06.05.11	-	-	Pension: Lump Sum:	- -	- -
Andrew Hendry	Leader of the Opposition from 07.05.11	3,075	2,589	Pension: Lump Sum:	9 24	1 1
Jimmy Gray	City of Inverness Chairman and Provost of Inverness	-	-	Pension: Lump Sum:	- -	- -
William Fernie	Chair of Education Culture and Sport Committee	4,260	4,331	Pension: Lump Sum:	2 2	1 -
Andrew Millar	Vice Chair of Education Culture and sport Committee	3,242	3,300	Pension: Lump Sum:	2 2	1 -
Hamish Fraser	Chair of Gaelic Committee	-	-	Pension: Lump Sum:	- -	- -
Margaret Davidson	Chair of Housing and Social Work Committee	4,260	4,331	Pension: Lump Sum:	2 2	1 -
Alasdair Christie	Vice Chair of Housing and Social Work Committee	3,242	3,300	Pension: Lump Sum:	1 -	1 -
Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board	4,260	4,331	Pension: Lump Sum:	2 2	1 -

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.12	Difference from March 2011
		31.03.12	31.03.11			
		£	£			
					£000	£000
Isobel McCallum	Vice Chair of Planning Environment and Development	3,242	3,300	Pension: Lump Sum:	2 1	1 -
Carolyn Wilson	Chair of Resources Committee	4,260	4,331	Pension: Lump Sum:	2 2	1 -
Martin Rattray	Vice Chair of Resources Committee until 12.05.10	*	2,589	Pension: Lump Sum:	* *	* *
Graham Marsden	Vice Chair of resources Committee from 13.05.10 until 16.12.10	*	2,715	Pension: Lump Sum:	* *	* *
Linda Munro	Vice Chair of Resources	3,242	2,710	Pension: Lump Sum:	1 1	- -
John Laing	Chair of Transport, Environment and Community Services	4,260	4,331	Pension: Lump Sum:	5 11	1 -
Brian Murphy	Vice Chair of Transport, Environment and Community Services	3,242	3,300	Pension: Lump Sum:	1 1	- -
Jean Urquhart	Chair of Audit and Scrutiny Committee to 23.05.11	3,151	4,331	Pension: Lump Sum:	12 32	1 1
David Fallows	Chair of Audit and Scrutiny Committee from 23.06.11	3,494	2,589	Pension: Lump Sum:	1 1	- -
Donnie Mackay	Chair of Caithness, Sutherland, and Easter Ross Planning Applications and Review Committee to 10.01.12	-	-	Pension: Lump Sum:	- -	- -
Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12	2,659	2,589	Pension Lump Sum	2 2	- -
David Chisholm	Chair of Ross, Skye and Lochaber Planning Applications and Review Committee to 10.01.12 and Chair of North Planning Application Committee from 10.01.12	-	-	Pension: Lump Sum:	- -	- -
Peter Corbett	Chair of Highland Licensing Committee	3,242	3,300	Pension: Lump Sum:	2 2	1 -

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.12	Difference from March 2011
		31.03.12	31.03.11			
		£	£			
					£000	£000
Margaret Paterson	Chair of Ross, Skye and Lochaber Licensing Committee until 09.09.10	*	1,935	Pension: Lump Sum:	*	*
Alistair Rhind	Chair of Caithness, Sutherland and Easter Ross Licensing Committee until 09.09.10	*	3,045	Pension: Lump Sum:	*	*
Richard Durham	Convenor of Highland and Islands Fire Board	5,273	5,273	Pension: Lump Sum:	8 20	1 1
Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board	3,355	3,355	Pension: Lump Sum:	2 2	1 -
	Total	79,092	89,388	Pension: Lump Sum:	63 114	16 3

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 2012 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.12 £000	Difference from March 2011 £000
		31.03.12	31.03.11			
		£	£			
William Alexander	Director of Social Work from 01.09.10 until 09.02.12 and Director of Health and Social Care from 10.02.12	31,192	24,955	Pension: Lump Sum:	42 111	7 -
Steve Barron	Director of Housing & Property	32,747	31,192	Pension: Lump Sum:	36 92	3 4
Stuart Black	Director of Planning, Environment and Development	31,192	31,192	Pension: Lump Sum:	36 93	2 -
Harriet Dempster	Director of Social Work until 31.08.10	*	13,075	Pension: Lump Sum:	* *	* *
Alistair Dodds	Chief Executive	43,070	43,476	Pension: Lump Sum:	60 158	2 -
Hugh Fraser	Director of Education Culture and Sport	31,192	31,192	Pension: Lump Sum:	47 125	2 -
Alan Geddes	Depute Chief Executive & Director of Finance to 30.09.11	17,371	34,984	Pension: Lump Sum:	58 173	- 11
Derek Yule	Director of Finance from 31.10.11	12,990	**	Pension: Lump Sum:	43 113	* *
Neil Gilles	Director of Transport, Environmental and Community Services	31,192	31,192	Pension: Lump Sum:	46 121	2 -
Michelle Morris	Assistant Chief Executive	31,192	31,192	Pension: Lump Sum:	27 65	2 -
	Total	262,138	272,450	Pension: Lump Sum	395 1,051	20 15

* Not in post

** New to Highland Council Pension Fund in 2011/12, previous contributions transferred in from Aberdeenshire Council

A Hendry
Leader of the Council _____

A Dodds
Chief Executive _____

MOVEMENT IN RESERVES STATEMENT 2010/11

	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 2010	22,269	8,804	996	1,385	1,454	29,563	64,471	720,210	784,681
Movement in reserves during 2010/11									
Surplus/(deficit) on provision of services (accounting basis)	84,273	3,123	-	-	-	-	87,396	-	87,396
Other comprehensive income and expenditure	-	-	-	-	-	-	-	195,699	195,699
Total comprehensive income and expenditure	84,273	3,123	-	-	-	-	87,396	195,699	283,095
Adjustments between accounting basis and funding basis under regulations (note 5)	(72,877)	(6,446)	233	-	-	-	(79,090)	79,090	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	11,396	(3,323)	233	-	-	-	8,306	274,789	283,095
Transfers to/from other statutory reserves	(2,831)	2,043	-	101	224	463	-	-	-
Increase/(decrease) in 2010/11	8,565	(1,280)	233	101	224	463	8,306	274,789	283,095
Balance at 31 March 2011	30,834	7,524	1,229	1,486	1,678	30,026	72,777	994,999	1,067,776

MOVEMENT IN RESERVES STATEMENT 2011/12

	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 2011	30,834	7,524	1,229	1,486	1,678	30,026	72,777	994,999	1,067,776
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services (accounting basis)	16,413	(2,955)	-	-	-	-	13,458	-	13,458
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(139,786)	(139,786)
Total comprehensive income and expenditure	16,413	(2,955)	-	-	-	-	13,458	(139,786)	(126,328)
Adjustments between accounting basis and funding basis under regulations (note 5)	(13,353)	1,682	89	-	-	-	(11,582)	11,582	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,060	(1,273)	89	-	-	-	1,876	(128,204)	(126,328)
Transfers to/from other statutory reserves	(1,492)	553	-	179	548	212	-	-	-
Increase/(decrease) in 2011/12	1,568	(720)	89	179	548	212	1,876	(128,204)	(126,328)
Balance at 31 March 2012	32,402	6,804	1,318	1,665	2,226	30,238	74,653	866,795	941,448

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Gross Expenditure £000	2010/11			Note	2011/12		
	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
260,653	(10,981)	249,672	Education services		265,461	(11,203)	254,258
78,744	(60,050)	18,694	Housing services		82,068	(60,576)	21,492
38,995	(45,126)	(6,131)	Council Housing – Housing Revenue Account		40,290	(45,100)	(4,810)
36,404	(7,756)	28,648	Cultural and related services		37,544	(5,957)	31,587
45,210	(5,580)	39,630	Environmental services		46,319	(6,010)	40,309
52,319	(11,276)	41,043	Roads and transport services		50,503	(11,262)	39,241
20,138	(9,603)	10,535	Planning and development services		21,186	(12,867)	8,319
145,692	(25,620)	120,072	Social work services		140,219	(24,739)	115,480
12,904	(7,089)	5,815	Central Services to the public		9,578	(7,620)	1,958
			Joint board requisitions				
18,867	(791)	18,076	Northern Joint Police Board		19,646	(791)	18,855
15,909	-	15,909	Highland and Islands Fire Board		15,788	-	15,788
2,416	-	2,416	Highland and Western Isles Valuation Joint Board		2,300	-	2,300
89	-	89	Highland and Islands Transport Partnership		89	-	89
12,842	(189)	12,653	Corporate and democratic core	7	11,497	(154)	11,343
3,392	(82,905)	(79,513)	Non Distributed Costs	8	6,982	(3,444)	3,538
<u>744,574</u>	<u>(266,966)</u>	<u>477,608</u>	Cost of services carried forward		<u>749,470</u>	<u>(189,723)</u>	559,747

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

		2010/11			2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
744,574	(266,966)	477,608	Cost of services brought forward		749,470	(189,723)	559,747
	(239)		Other operating expenditure	9			1,858
	45,725		Financing and investment income and expenditure	10			36,632
	(610,490)		Taxation and non-specific grant Income	11			(611,695)
		<u>(87,396)</u>	(Surplus)/deficit on provision of services				<u>(13,458)</u>
	(101,889)		Surplus on revaluation of non-current assets				(1,836)
	(93,810)		Actuarial losses/(gains) on pension assets/liabilities	25			141,622
		<u>(195,699)</u>	Other comprehensive income and expenditure				<u>139,786</u>
		<u><u>(283,095)</u></u>	Total comprehensive income and expenditure				<u><u>126,328</u></u>

BALANCE SHEET

31/03/11 £000		Notes	31/03/12 £000
1,968,015	Property, plant & equipment	29	1,989,874
320	Intangible assets	33	240
908	Long term investments	35	3,974
40,771	Long term debtors	37	38,442
<u>2,010,014</u>	Long term assets		<u>2,032,530</u>
-	Short term investments		3,050
4,636	Inventories	36	6,804
38,713	Short term debtors	38	56,758
44,017	Cash and cash equivalents	18	57,286
794	Assets held for sale	34	2,181
<u>88,160</u>	Current assets		<u>126,079</u>
(49,640)	Short term borrowing	44	(67,991)
(90,380)	Short term creditors	39	(100,275)
(8,523)	Provisions	40	(4,361)
<u>(148,543)</u>	Current liabilities		<u>(172,627)</u>
(596,014)	Long term borrowing	44	(625,695)
(285,841)	Other long term liabilities	41	(418,839)
<u>(881,855)</u>	Long term liabilities		<u>(1,044,534)</u>
<u>1,067,776</u>	Net assets		<u>941,448</u>
1,229	Capital receipts reserve		1,318
1,486	Renewal and repair fund		1,665
30,026	Capital fund		30,238
1,678	Insurance Fund		2,226
30,834	General Fund		32,402
7,524	Housing Revenue account		6,804
<u>72,777</u>	Usable reserves	12	<u>74,653</u>
360,560	Revaluation reserve		377,101
840,118	Capital adjustment account		826,866
(39,122)	Financial instruments adjustment account		(37,119)
(152,616)	Pensions reserve		(289,466)
(13,941)	Accumulated compensated absences adjustment account		(10,587)
<u>994,999</u>	Unusable reserves	13	<u>866,795</u>
<u>1,067,776</u>	Total reserves		<u>941,448</u>

The unaudited Statement of Accounts was issued on 27 June 2012 and the audited Statement of Accounts was authorised for issue on 25 October 2012

Derek Yule B.Com. CPFA. IRRV(Hons)
Director of Finance
27 June 2012

CASH FLOW STATEMENT

31/03/11 £000		Notes	31/03/12 £000
87,396	Net surplus on the provision of services		13,458
1,774	Adjust net surplus/(deficit) on the provision of services for non-cash movements	14	71,124
<u>(22,734)</u>	Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities		<u>(34,416)</u>
66,436	Net cash inflow from operating activities	15	50,166
(90,858)	Net cash outflow from investing activities	16	(97,924)
34,755	Net cash inflow from financing activities	17	61,027
<u>10,333</u>	Net increase in cash and cash equivalents		<u>13,269</u>
33,684	Cash and cash equivalents at 1 April 2011		44,017
<u><u>44,017</u></u>	Cash and cash equivalents at 31 March 2012	18	<u><u>57,286</u></u>

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1 Accounting policies

General principles

The Statement of Accounts summarises the transactions of the Council for the financial year 2011/12 and its position at 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (The Code) and the Service reporting code of practice for local authorities 2011/12 supported by International Financial Reporting Standards (IFRS).

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

Accruals of income and expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- 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
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- 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 (eg 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

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.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

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 Council'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.

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

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. This scheme is currently in its introductory phase which will last until 31 March 2014. The financial year 2011/12 is the first in which the Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions of carbon dioxide produced. As carbon dioxide is emitted (as energy is used), a liability and expense is recognised. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowance required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of the Council's services and is apportioned to the services on the basis of energy consumption.

Charges to revenue for non-current assets

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

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

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

Employee benefits

Benefits payable during employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, bonuses, paid annual leave and paid sick 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 against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave 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 Accumulating Compensating Absences Adjustment Account in the Movement in Reserves Statement.

Termination benefits

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 by an officer's agreement 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 either terminating the employment of an officer or making an offer to encourage voluntary redundancy.

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.

Post-employment benefits

Teachers are admitted to the Teachers Superannuation Scheme. However, the arrangements for the teachers' scheme mean that assets and liabilities cannot be attributed specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – 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' 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 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 – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on the iBOxx AA rated over 15 year corporate bond index)

- The assets of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions 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
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-distributed costs
- 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 – debited to the Pensions Reserve
- Contributions paid to the 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 Council 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) 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 reporting period

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

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

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

Exceptional items

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

Financial Instruments

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

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

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

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

Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables

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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Instruments entered into before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

Foreign currency translation

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

Government grants and contributions

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

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. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Inventories

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

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership or the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debt) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- charge for the acquisition of the interest in the property – applied to write down the lease liability (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future years, this is posted out of the General Fund balance to the Capital Receipts Reserve.

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.

Operating leases

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 the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

Property, plant and equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Componentisation

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

Impairment

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

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Heritage assets

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

Intangible assets

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

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

Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent liabilities

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

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

Reserves

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

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

VAT

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

2. IFRS 7 – Financial Instruments

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has adopted amendments to IFRS 7 – Financial Instruments affecting disclosure requirements of the nature and extent of risks arising from financial instruments, in particular linking qualitative and quantitative disclosures and clarifying collateral disclosure. This is not a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period in the 2012/13 financial statements.

3. Critical judgements in applying accounting policies

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

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

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

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

The items in the Council's Balance Sheet at 31 March 2012 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 £3m for every year that useful lives had to be reduced.
Provisions	The Council has made a provision of £0.605m 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 £0.061m.
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 retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease of approximately £22.3m in the pension liability.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2012 the Council had a balance of sundry debtors of £9.725m. A review of balances suggested that an allowance for impairment of £2.176m 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.

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

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

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2011/12	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	60,124	13,313	-	73,437	(73,437)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the comprehensive income and expenditure statement	(34,415)	-	-	(34,415)	34,415	-
Net loss on sale of non current assets	1,024	834	-	1,858	(1,858)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(25,830)	(6,327)	-	(32,157)	32,157	-
Capital expenditure charged against the General Fund and HRA balances	(1,978)	(5,141)	-	(7,119)	7,119	-
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	-	-	3,961	3,961	(3,961)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(3,872)	(3,872)	3,872	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2011/12	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	(4,786)	(443)	-	(5,229)	5,229	-
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	19,682	1,006	-	20,688	(20,688)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(24,222)	(1,238)	-	(25,460)	25,460	-
Adjustments involving the Accumulating Compensated Absences 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	(3,368)	14	-	(3,354)	3,354	-
Adjustments involving the Housing Revenue Account						
Difference between income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	336	(336)	-	-	-	-
Total adjustments 2011/12	(13,353)	1,682	89	(11,582)	11,582	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2010/11	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	47,049	11,634	-	58,683	(58,683)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the comprehensive income and expenditure statement	(22,395)	(339)	-	(22,734)	22,734	-
Net (gain)/loss on sale of non current assets	(37)	104	-	67	(67)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(24,665)	(6,392)	-	(31,057)	31,057	-
Capital expenditure charged against the General Fund and HRA balances	(2,086)	(6,832)	-	(8,918)	8,918	-
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	-	-	4,414	4,414	(4,414)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(4,181)	(4,181)	4,181	-

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2010/11	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	(4,809)	(443)	-	(5,252)	5,252	-
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	(25,396)	(1,306)	-	(26,702)	26,702	-
Employers' pension contributions and direct payments to pensioners payable in the year	(43,711)	(2,247)	-	(45,958)	45,958	-
Adjustments involving the Accumulating Compensated Absences 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	2,493	(25)	-	2,468	(2,468)	-
Adjustments involving the Housing Revenue Account						
Difference between income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	600	(600)	-	-	-	-
Total adjustments 2010/11	(72,877)	(6,446)	233	(79,090)	79,090	-

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 2011/12.

	Balance at 01/04/10 £000	Transfers out 2010/11 £000	Transfers in 2010/11 £000	Balance at 31/03/11 £000	Transfers out 2011/12 £000	Transfers in 2011/12 £000	Balance at 31/03/12 £000
Devolved school management	1,615	-	573	2,188	-	582	2,770
Spend to save	1,381	(705)	799	1,475	(666)	51	860
Central energy efficiency	739	-	3	742	-	5	747
Joint ventures	438	(10)	1	429	(429)	-	-
IT investment	1,067	(211)	460	1,316	-	141	1,457
Building maintenance costing project	500	-	281	781	(250)	6	537
Winter maintenance	1,019	(678)	3	344	(344)	-	-
Energy investment fund	474	(414)	1	61	(61)	-	-
Learning disability reprovisioning	556	(556)	-	-	-	-	-
Highland 2007 legacy	212	(212)	-	-	-	-	-
Caithness Heat and Power Limited	820	(820)	1,161	1,161	(552)	8	617
Caithness Heat and Power Limited (Procurement)	113	(67)	-	46	(30)	-	16
Employability service	-	-	437	437	(437)	-	-
Fire Board funding	-	-	351	351	(351)	-	-
Learning and teaching	-	-	330	330	(330)	692	692
Customer services review	-	-	132	132	(133)	1	-
Future change implementation	-	-	3,000	3,000	(1,936)	19	1,083
IRA Gaelic extension	-	-	-	-	-	150	150
Total	8,934	(3,673)	7,532	12,793	(5,519)	1,655	8,929

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.

2010/11 Net £000		2011/12		
		Expenditure £000	Income £000	Net £000
8,409	Democratic representation and management	8,154	-	8,154
4,244	Corporate management	3,343	(154)	3,189
<u>12,653</u>	Total	<u>11,497</u>	<u>(154)</u>	<u>11,343</u>

8. Comprehensive Income and Expenditure Statement – Non distributed costs

Non distributed costs are excluded from individual services and comprise:

2010/11 £000		2011/12 £000
3,049	Pension fund charges for added years and early retirement	4,945
(82,905)	Pension fund past service contributions	965
222	Pension fund settlements and curtailments	(3,444)
121	Depreciation of non-operational properties	1,072
<u>(79,513)</u>		<u>3,538</u>

9. Comprehensive Income and Expenditure Statement – Other operating expenditure

2010/11 £000		2011/12 £000
239	Gains/(losses) on the disposal of non-current assets	(1,858)

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

2010/11 £000		2011/12 £000
(512)	Gains on trading operations (note 20)	(480)
40,726	Interest payable and similar charges	42,277
5,794	Pensions interest cost and expected return on pension assets	(4,650)
(283)	Interest and investment income	(515)
<u>45,725</u>		<u>36,632</u>

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

2010/11 £000		2011/12 £000
(392,094)	Revenue support grant	(375,334)
(108,418)	Council tax income	(110,147)
(87,244)	Non domestic rates	(94,846)
(22,734)	Capital grants and contributions	(31,368)
<u>(610,490)</u>		<u>(611,695)</u>

12. Balance Sheet – usable reserves

31/03/11 £000		31/03/12 £000
1,229	Capital receipts reserve (a)	1,318
1,486	Renewal and repair fund (b)	1,665
30,026	Capital fund (c)	30,238
1,678	Insurance fund (d)	2,226
30,834	General fund	32,402
7,524	Housing Revenue account	6,804
<u>72,777</u>		<u>74,653</u>

(a) The capital receipts reserve represents capital receipts available to finance capital expenditure in future years.

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

- to fund ground maintenance work undertaken on private land adopted by the Council
- to fund purchases of new museum pieces for Inverness Museum
- to fund repairs to the artificial pitch at Tain Royal Academy Community Complex
- to fund repairs at leisure centres

(c) The Council operates a Capital fund to enable the financing of capital expenditure without recourse to borrowing. The fund can also be used to finance repayment of principal to the loans fund. Contributions received from developers in accordance with planning gain agreements under Section 75 of the Town and County Planning (Scotland) Act 1997 are added to the Capital Fund and are used in accordance with the conditions of each individual agreement e.g. for the provision of play areas, environmental and road infrastructure improvements.

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

(d) Using powers in Schedule 3 of the Local Government Scotland Act 1975 the Council has established an Insurance Fund to meet uninsured losses or surpluses. This fund enables the Council to self insure General Fund properties against the risks of storm, flood, burst pipes and malicious damage.

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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

31/03/11 £000		31/03/12 £000
360,560	Revaluation reserve (a)	377,101
840,118	Capital Adjustment Account (b)	826,866
(39,122)	Financial instruments adjustment account (c)	(37,119)
(152,616)	Pensions reserves (d)	(289,466)
(13,941)	Accumulated compensated absences adjustment account (e)	(10,587)
<u>994,999</u>		<u>866,795</u>

(a) Revaluation reserve

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

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

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

An adjustment has been made between the Revaluation Reserve and the Capital Adjustment Account in 2011/12 to correct prior year accounting entries.

2010/11 £000		2011/12 £000
260,493	Balance at 1 April	360,560
-	Restatement of opening balance	17,611
260,493	Restated opening balance	378,171
101,884	Upward revaluation of assets	1,836
(63)	Downward revaluation and impairment losses not charged to the surplus/deficit on the provision of services	-
(1,701)	Difference between fair value depreciation and historical cost depreciation	(2,402)
(53)	Accumulated gains on assets sold	(504)
<u>360,560</u>	Balance at 31 March	<u>377,101</u>

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(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.

An adjustment has been made between the Revaluation Reserve and the Capital Adjustment Account in 2011/12 to correct prior year accounting entries.

2010/11 £000		2011/12 £000
831,330	Balance at 1 April 2011	840,118
-	Restatement of opening balance	<u>(17,611)</u>
831,330	Restated opening balance	822,507
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(58,683)	Charges for depreciation and impairment of non-current assets	(73,437)
(80)	Amortisation of intangible assets	(80)
(4,480)	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	(5,819)
	Adjusting amounts written out of the Revaluation reserve	
1,821	Net written out amount of the cost of non-current assets consumed in the year	2,906
	Capital financing applied in the year	
4,181	Use of the Capital Receipts Reserve to finance new capital expenditure	3,872
22,734	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	34,415
31,057	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	32,157
3,320	Repayment of PPP creditors	3,226
8,918	Capital expenditure charged against the General Fund and HRA balances	7,119
<u>840,118</u>	Balance at 31 March 2012	<u>826,866</u>

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

(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.

2010/11 £000		2011/12 £000 £000
(41,053)	Balance at 1 April 2011	(39,122)
	Proportion of premiums and discounts to be charged against the General Fund and HRA balances in accordance with statutory requirements	
1,982	Current year	1,948
<u>(31)</u>	Previous financial years	<u>5</u>
1,951		1,953
12	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	12
(32)	Proportion of equivalent interest rate calculation on soft loans	38
1,931	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	2,003
<u>(39,122)</u>	Balance at 31 March 2012	<u>(37,119)</u>

(d) Pensions Reserve

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

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2010/11 £000		2011/12 £000
(319,086)	Balance at 1 April 2011	(152,616)
93,810	Actuarial gains or losses on pension assets and liabilities	(141,622)
45,958	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	(20,688)
26,702	Employer's pension contributions and direct payments to pensioners payable in the year	25,460
<u>(152,616)</u>	Balance at 31 March 2012	<u>(289,466)</u>

(e) Accumulated compensated absences adjustment account

The Accumulating compensated absences 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.

2010/11 £000		2011/12 £000
(11,473)	Balance at 1 April 2011	(13,941)
11,473	Settlement or cancellation of accrual made at the end of the preceding year	13,941
(13,941)	Amounts accrued at the end of the current year	(10,587)
<u>(13,941)</u>	Balance at 31 March 2012	<u>(10,587)</u>

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

2010/11 £000		2011/12 £000
	Non-cash items	
58,764	Depreciation and impairments	73,518
3,356	Loss on sale of fixed assets	2,247
5	Amounts written off long term investments	2,844
(72,660)	IAS 19 transactions	(4,772)
(57)	Financial instruments adjustments	(675)
	Items on accruals basis	
50	Decrease/(increase)in stock	(2,167)
9,499	Decrease/(increase) in debtors	(13,506)
6,441	Increase in creditors	17,431
(3,624)	Decrease In provisions	(3,796)
<u>1,774</u>		<u>71,124</u>

15. Cash flow statement – operating activities

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

2010/11 £000		2011/12 £000
<u>(2,187)</u>	Interest received	<u>(2,145)</u>
<u>41,512</u>	Interest paid	<u>40,760</u>

16. Cash flow statement – investing activities

2010/11 £000		2011/12 £000
88,841	Purchase of property, plant and equipment	96,150
3,322	Other payments for investing activities	1,830
239	Proceeds from the sale of property, plant and equipment	(5,443)
-	Purchase of long and short-term investments	6,000
<u>(1,544)</u>	Other receipts from investing activities	<u>(613)</u>
<u>90,858</u>	Net cash flows from investing activities	<u>97,924</u>

17. Cash flow statement – financing activities

2010/11 £000		2011/12 £000
30,000	Cash receipts of short and long term borrowing	42,300
25,203	Other receipts from financing activities	34,415
(3,320)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(3,226)
<u>(17,128)</u>	Repayments of short and long term borrowing	<u>(12,462)</u>
<u>34,755</u>		<u>61,027</u>

18. Cash flow statement – cash and cash equivalents

	At 1 April 2011 £000	Cash flow £000	At 31 March 2012 £000
Temporary investments	52,450	14,571	67,021
Cash in hand	106	(15)	91
Cash at bank	(8,539)	(1,287)	(9,826)
Total cash and cash equivalents	<u>44,017</u>	<u>13,269</u>	<u>57,286</u>

19. Amounts reported for resource allocation decisions

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

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

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

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Service income and expenditure

	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
2011/12	£000	£000	£000	£000	£000	£000	£000	£000
Education, Culture and Sport	12,107	2,529	-	14,636	169,310	80,460	249,770	235,134
Joint Committee for Children and Young People	1,427	-	-	1,427	19,020	23,493	42,513	41,086
Housing (non HRA), Property and Architectural services	20,764	406	2	21,172	6,814	23,274	30,088	8,916
Building Maintenance	17,184	-	-	17,184	3,386	13,401	16,787	(397)
Planning and Development service	10,789	-	1	10,790	8,421	11,121	19,542	8,752
Social Work services	19,102	4,755	-	23,857	42,224	75,817	118,041	94,184
Transport, Environment and Community services	102,101	2,280	39	104,420	59,329	109,722	169,051	64,631
Chief executive's office	10,097	66	-	10,163	14,915	22,387	37,302	27,139
Finance services	5,552	-	-	5,552	10,627	1,782	12,409	6,857
Housing benefits	-	52,597	-	52,597	-	53,069	53,069	472
Non domestic rate relief	-	-	-	-	-	608	608	608
Loan charges	-	-	-	-	-	50,911	50,911	50,911
Interest and investment income	-	-	437	437	-	-	-	(437)
Joint board requisitions								
Northern Joint Police Board	-	791	-	791	-	19,646	19,646	18,855
Highland and Islands Fire Board	-	-	-	-	-	15,788	15,788	15,788
Highland and Western Isles Valuation Joint Board	-	-	-	-	-	2,300	2,300	2,300
Highland and Islands Transport Partnership	-	-	-	-	-	89	89	89
	199,123	63,424	479	263,026	334,046	503,868	837,914	574,888

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

Service income and expenditure

	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
Comparative Figures 2010/11	£000	£000	£000	£000	£000	£000	£000	£000
Education, Culture and Sport	12,662	4,056	-	16,718	181,419	74,921	256,340	239,622
Joint Committee for Children and Young People	614	-	-	614	7,870	17,260	25,130	24,516
Housing (non HRA), Property and Architectural services	72,012	142	-	72,154	7,160	75,654	82,814	10,660
Building Maintenance	15,305	-	-	15,305	3,602	10,961	14,563	(742)
Planning and Development service	6,600	701	-	7,301	8,495	6,574	15,069	7,768
Social Work services	19,728	6,336	-	26,064	52,371	82,048	134,419	108,355
Transport, Environment and Community services	103,690	516	-	104,206	73,026	96,445	169,471	65,265
Chief executive's office	8,885	-	-	8,885	15,122	21,116	36,238	27,353
Finance services	5,758	8	-	5,766	10,637	1,998	12,635	6,869
Housing benefits	-	52,337	-	52,337	-	52,659	52,659	322
Non domestic rate relief	-	-	-	-	-	550	550	550
Loan charges	-	-	-	-	-	48,384	48,384	48,384
Interest and investment income	-	-	244	244	-	-	-	(244)
Joint board requisitions								
Northern Joint Police Board	-	791	-	791	-	18,867	18,867	18,076
Highland and Islands Fire Board	-	-	-	-	-	15,909	15,909	15,909
Highland and Western Isles Valuation Joint Board	-	-	-	-	-	2,416	2,416	2,416
Highland and Islands Transport Partnership	-	-	-	-	-	89	89	89
	245,254	64,887	244	310,385	359,702	525,851	885,553	575,168

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

2010/11 £000		2011/12 £000
575,168	Net expenditure in the service analysis	574,888
5,174	Net expenditure of services not included in the analysis	(1,591)
(64,650)	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	35,742
(58,863)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(49,292)
<u>456,829</u>	Cost of services in Comprehensive Income and Expenditure Statement	<u>559,747</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

2011/12	Service analysis	Services and support services not in analysis	Non statutory charges	Cost of services	Corporate amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	251,720	47,974	-	299,694	94,846	394,540
Interest and investment income	479	1,853	-	2,332	1,174	3,506
Income from council tax	-	-	-	-	110,147	110,147
Government grants and contributions	10,827	-	183	11,010	406,525	417,535
Total Income	263,026	49,827	183	313,036	612,692	925,728
Employee expenses	334,046	(8,263)	1,957	327,740	(4,650)	323,090
Other service expenses	503,868	46,385	(55,753)	494,500	964	495,464
Depreciation, amortisation and impairment	-	-	50,543	50,543	-	50,543
Interest Payments	-	-	-	-	41,315	41,315
Loss on Disposal of Non-current Assets	-	-	-	-	1,858	1,858
Total expenditure	837,914	38,122	(3,253)	872,783	39,487	912,270
(Surplus)/deficit on the provision of services	574,888	(11,705)	(3,436)	559,747	(573,205)	(13,458)

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

Comparative Figures 2010/11	Service analysis £000	Services and support services not in analysis £000	Non statutory charges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	245,254	44,635	46	289,935	87,244	377,179
Interest and investment income	244	-	-	244	2,747	2,991
Income from council tax	-	-	-	-	108,418	108,418
Government grants and contributions	12,550	1,062	22,864	36,476	392,094	428,570
Total Income	258,048	45,697	22,910	326,655	590,503	917,158
Employee expenses	359,702	6,409	(76,517)	289,594	5,790	295,384
Other service expenses	473,514	49,874	(85,987)	437,401	-	437,401
Depreciation, amortisation and impairment	-	-	56,489	56,489	-	56,489
Interest Payments	-	-	-	-	40,727	40,727
Gain or Loss on Disposal of Non-current Assets	-	-	-	-	(239)	(239)
Total expenditure	833,216	56,283	(106,015)	783,484	46,278	829,762
(Surplus)/deficit on the provision of services	575,168	10,586	(128,925)	456,829	(544,225)	(87,396)

20. Trading operations

The Council has established 6 trading operations which operate in a commercial environment and generate income from fees and charges to other parts of the Council or other organisations. In accordance with the Local Government (Scotland) Act 2003 significant trading operations are required to break even over a rolling three year period.

Details of significant trading operations are as follows:

Roads and Community Works

Consists of an amalgamation of Roads, Street Cleaning, Public Conveniences and Grounds Maintenance to enable cross working of the workforce on the various activities. The financial target over three years is to make an appropriate surplus after depreciation charges, given trading conditions. As a result of a change in the Council's policy on purchasing vehicles and plant, previously through leasing, now through capital purchase, depreciation charges are applied in line with the Council's accounting policies.

Waste Management

A close working relationship between roads and community works and waste management enables the continued cross working of workforces. The financial target over three years is to make an appropriate surplus after depreciation charges, given trading conditions. As a result of a change in the Council's policy on purchasing vehicles and plant, previously through leasing now through capital purchase, depreciation charges are applied in line with the Council's accounting policies.

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.

Building Maintenance

This organisation undertakes the provision of building repairs to Housing Services and other Council Services. Income is generated by a combination of schedule of rates and charging an hourly rate to recover costs. The target is to make the surplus determined by the Council when the Revenue Budget is set, which was £0.314m in 2011/12 (£0.322m in 2010/11).

Vehicle Maintenance

Ensures the provision of repairs and maintenance to the Council's fleet of vehicles. Income is generated through a job card system to recover costs along with a small profit element.

Project Design

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

Catering and Building Cleaning

These activities no longer comply with the definition of significant trading operations and therefore ceased to maintain statutory trading accounts from 1 April 2010.

Summary of Financial Results

A summary of the financial results of trading operations for 2011/12 is as follows:

	Turnover £000	Expenditure £000	Surplus £000
Roads and Community Works	21,466	21,347	119
Waste Management	14,695	14,243	452
Fishery Piers and Harbours	19,258	18,798	460
Building Maintenance	17,184	16,836	348
Vehicle Maintenance	3,916	3,804	112
Project Design	3,420	2,895	525
Surplus/(deficit) on trading operations	79,939	77,923	2,016
Less internal surplus included in respective services net expenditure			(1,535)
Less interest on revenue balances			(1)
Surplus on trading organisations as reported in Comprehensive Income and Expenditure Statement (see note 10)			480

	2009/10 £000	2010/11 £000	2011/12 £000	3 year surplus £000
Roads and Community Works	(589)	481	119	11
Waste Management	(1,054)	1,298	452	696
Fishery Piers and Harbours	367	525	460	1,352
Building Maintenance	1,223	666	348	2,237
Vehicle Maintenance	182	215	112	509
Project Design	207	189	525	921
	336	3,374	2,016	5,726
Catering	594			
Cleaning	778			
	1,708			

The Local Government in Scotland Act 2003 requires each Significant Trading Organisation (STO) to break even over a rolling three year period. The table above is presented exclusively to show whether each STO met this target. The figures for 2009/10 are based on UK Generally Accepted Accounting Practices in line with the legislative requirements for that year. The 2010/11 and 2011/12 figures are based on International Financial Reporting Standards as specified in the Code of Practice on Local Authority Accounting. For this reason the figures quoted are not regarded as suitable for trend analysis.

21. Agency Services

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2011/12 the Council paid over £29.884m and received £0.683m for providing this service. During 2010/11 the Council paid over £29.597m and received £0.614m for providing this service.

22. Community Care Partnership Scheme

During 2011/12, under the Community Care and Health (Scotland) Act 2002, The Highland Council continued to have in place a signed Extended Local Partnership Agreement, known as The Highland Community Care Partnership Agreement, with NHS Highland as their partner body.

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

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

The Partnership had a budget, covering all the above client groupings that amounted to approximately £144m during 2011/12. The budgets are currently aligned, which means that each Partner organisation holds their own element of the budget and records the expenditure and income that relates to the part of the service for which they are responsible. The Partners are committed to moving towards pooled budgets where appropriate opportunities arise.

The Highland Council contributed approximately £87.9m (2010/11 £87.0m) in respect of the specific services, and this can be analysed as follows:

2010/11 £m		2011/12 £m
54.2	Older People	54.2
20.4	People with Learning Disability	21.2
5.3	People with Mental Illness	5.1
6.6	People with a Physical Disability	6.9
0.5	People Misusing Drugs/Alcohol	0.5
<hr/> <hr/> 87.0	Total	<hr/> <hr/> 87.9

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

The increase in the budget from £87.0m to £87.9m is mainly due to an increase of £0.6m to the "People with Learning Disabilities" budget for the benefit of young adults with profound disabilities.

23. External audit costs

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

2010/11 £000		2011/12 £000
<hr/> 482	Fees payable to Audit Scotland with regard to external audit services	<hr/> 457

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

24. 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.

The Scheme is technically a defined benefit scheme. However, the Scheme is 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 Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12, the Council paid £13.964m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2010/11 were £14.468m and 14.9%. 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' scheme. These costs are accounted for on a defined benefit basis and are included in the information presented in note 25.

25. Defined benefit pension schemes

Participation in pension schemes

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

The authority has two post employment arrangements:

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

Transactions relating to post employment benefits

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

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

2010/11 £000		2011/12 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services	
30,931	Current service cost	27,817
(82,905)	Past service cost	965
222	Settlements and curtailments	(3,444)
(51,752)		25,338
	Financing and investment income and expenditure	
52,911	Interest cost	45,785
(47,117)	Expected return on scheme assets	(50,435)
5,794		(4,650)
(45,958)	Total post employment benefits charged to the surplus or deficit on the provision of services	20,688
	Other post employment benefits charged to the comprehensive income and expenditure statement	
(93,810)	Actuarial gains and losses	141,622
(139,768)	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	162,310
	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	
45,958		(20,688)
	Actual amount charged against the General Fund balance for pensions in the year	
26,702	Employers contributions payable to the scheme	25,460

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £190.929m.

Assets and liabilities in relation to post employment benefits

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

31/03/11		31/03/12
£000		£000
955,402	Opening defined benefit obligation	850,973
30,931	Current service cost	27,817
52,911	Interest cost	45,785
(88,000)	Actuarial loss/(gain)	108,367
(23,971)	Estimated benefits paid (net of transfers in)	(29,933)
8,398	Contributions by scheme participants	7,940
(2,015)	Unfunded pension payments	(1,484)
(82,905)	Past service cost	965
222	Losses on curtailments	1,479
-	Liabilities extinguished on curtailments	(21,103)
<u>850,973</u>	Closing value	<u>990,806</u>

Reconciliation of fair value of the scheme assets

31/03/11		31/03/12
£000		£000
636,316	Opening fair value of scheme assets	698,357
47,117	Expected return on Scheme assets	50,435
5,810	Actuarial loss/(gain)	(33,255)
26,702	Contributions by employer	25,460
8,398	Contributions by Scheme participants	7,940
(25,986)	Estimated benefits paid (net of transfers in)	(31,417)
-	Payment of bulk transfer value	(16,180)
<u>698,357</u>	Closing value	<u>701,340</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £14.270m (2010/11 £52.928m).

Scheme history

Year ended	31/03/12	31/03/11	31/03/10	31/03/09	31/03/08
	£000	£000	£000	£000	£000
Present value of liabilities	(990,806)	(850,973)	(955,402)	(591,256)	(655,864)
Fair value of assets	701,340	698,357	636,316	444,647	564,493
Deficit	<u>(289,466)</u>	<u>(152,616)</u>	<u>(319,086)</u>	<u>(146,609)</u>	<u>(91,371)</u>

Assets prior to 31 March 2009 are shown at bid price (estimated where necessary)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £289.466m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie, before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £22.987m.

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 Barnett Waddingham 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.

The principal actuarial assumptions adopted as at 31 March 2012 are as follows:

2010/11		2011/12
Long term expected rate of return on assets in the scheme		
7.8%	Equity investments	6.7%
4.4%	Gilts	3.3%
5.5%	Bonds	4.6%
5.8%	Property	4.7%
3.0%	Cash	3.0%
Life expectancy from age 65 (years)		
Retiring today		
18.9	Males	21.3
21.9	Females	23.5
Retiring in 20 years		
19.9	Males	22.6
23.0	Females	25.1

Financial Assumptions

3.5%	RPI increases	3.3%
2.7%	CPI increases	2.5%
5.0%	Rate of increase in salaries	4.8%
2.7%	Rate of increase in pensions	2.5%
5.5%	Rate for discounting scheme liabilities	4.6%
50%	Take up of option to convert annual pension into retirement lump sum	50%

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

2010/11		2011/12
79%	Equities	76%
5%	Gilts	7%
6%	Other Bonds	7%
9%	Property	9%
1%	Cash	1%
<u>100%</u>	<u>Total</u>	<u>100%</u>

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012

	2011/12	2010/11	2009/10	2008/09	2007/08
	%	%	%	%	%
Differences between the expected and actual return on assets	(4.7)	0.8	24.0	(37.8)	(13.3)
Experience gains and losses on liabilities	(0.4)	0.0	0.9	2.1	0.0

26. Local Government Pension Scheme

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

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of Governance being the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme Amendment (Scotland) Regulations 2010.

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.

27. 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 (eg council tax bills, housing benefits). An analysis of government grants received during the year is set out in note 43.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in the remuneration report.

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

The Council has a partnership agreement with NHS Highland for the provision of community care. Transactions and balances outstanding are detailed in note 22.

Police, Fire and Valuation Joint Boards and Highland and Islands Transport Partnership

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

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

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

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.

At 31 March 2012, the Pension Fund had a deposit with The Highland Council loans fund of £nil (2010/11 £4.267m). The Council paid the Pension Fund interest of £0.020m (2010/11 £0.017m) on the average deposits throughout the year. The Council charged the Pension Fund £0.641m (2010/11 £0.709m) for expenses incurred in administering the Pension Fund.

Entities controlled or significantly influenced by the Council

During the year Highland Council had two subsidiary companies as detailed below. Copies of the Accounts, all of which give an unqualified audit opinion, can be obtained from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX. These 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	Profit/(loss) before taxation	Profit/(loss) after taxation
	£000	£000	£000
31 March 2011	1,554	936	937
31 March 2010	380	6	5

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

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

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

	Net assets (Liabilities)	Profit/(loss) before taxation	Profit/(loss) after taxation
	£000	£000	£000
Year ended 31 March 2011			
Highland Opportunity (Communities) Limited	353	3	3
Highland Opportunity (EBS) Limited	93	36	36
Highland Opportunity (Investments) Limited	2,148	2,176	2,171
Ness Horizons Ltd	(46)	(4)	(4)
Year ended 31 March 2010			
Highland Opportunity (Communities) Limited	349	(6)	(6)
Highland Opportunity (EBS) Limited	56	(3)	(3)
Highland Opportunity (Investments) Limited	77	87	87
Ness Horizons Ltd period to 31/03/10	(42)	150	(149)

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 first set of accounts for HLH and HLH (Trading) CIC will be drawn up to 31 March 2013.

Caithness Heat and Power Limited (CHAP)

CHAP is a company limited by guarantee with The Highland Council as sole member. Following a decision taken by Highland Council on 12 May 2011 to terminate the procurement process to identify a new operator for the district heating system in Wick, the Council further decided on 27 October 2011 to procure the trade and assets of Caithness Heat and Power Limited for £1 and to enter negotiations with the company to agree that it would cease trading as soon as possible. It was subsequently agreed that Caithness Heat and Power Limited would cease trading on 23 December 2011 and when all conditions are satisfied the company will be struck off by the Registrar of Companies during 2012/13.

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

Financial Year End	Net Liabilities	Loss before taxation	Loss after taxation
	£000	£000	£000
31 March 2011	6,194	(1,642)	(1,642)
31 March 2010	4,552	(73)	(73)

Pathfinder North

Highland Council is the Lead Authority in a five Council partnership that from 21 March 2007 until 20 March 2014 secured advanced broadband services through aggregated procurement. These managed services are supplied by Cable and Wireless (UK) Ltd through data network links to schools, libraries and council administration locations in the Highlands and Islands (covering the areas administered by the Councils of Argyll and Bute, Highland, Moray, Orkney and Shetland Islands). The five Councils operate under a signed Minute of Agreement and Addendum. The Chief Executive of Highland Council chairs the Partnership Board. Highland Council's Head of e-Government is the Project Sponsor. The partnership employs one full time Manager.

Funding for the partnership is primarily through a £62m Scottish Government grant. The Comhairle nan Eilean Siar is a non-member able to attend board meetings but on a non – voting basis. It received a grant of £1m from the Scottish Government and makes no contribution to the Partnership.

As well as providing an element of day to day support to the partnership, Highland, like all members is making an annual contribution towards implementation, project management and contractor charges not covered by the Scottish Government grant. Highland Council's contribution in 2011/12 was £0.823m (2010/11 £0.823m).

The partnership is currently assessing the results of an option appraisal exercise to select the preferred option for the delivery of advanced broadband services after the current contract expires on 20 March 2014.

28. Operating Leases

Highland Council as Lessor

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

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

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

31/03/11 £000		31/03/12 £000
1,966	Not later than one year	1,939
6,569	Later than one year and not later than five years	6,100
<u>62,779</u>	Later than five years	<u>61,565</u>
<u><u>71,314</u></u>		<u><u>69,604</u></u>

Highland Council as Lessee

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

31/03/11 £000		31/03/12 £000
7,193	Not later than one year	6,224
11,070	Later than one year and not later than five years	9,078
<u>3,861</u>	Later than five years	<u>5,605</u>
<u><u>22,124</u></u>		<u><u>20,907</u></u>

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

31/03/11 £000		31/03/12 £000
<u>8,035</u>	Minimum lease payments	<u>7,396</u>

29. Property, plant and equipment

Movements in 2011/12

	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 2011	693,099	940,452	49,728	313,310	1,361	8,252	47,705	2,053,907	166,150
Additions	24,239	19,040	18,935	19,237	361	379	14,868	97,059	5
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(709)	(24,070)	-	-	-	(705)	-	(25,484)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(6,092)	3,473	-	-	-	442	-	(2,177)	-
Derecognition - disposals	(4,089)	(1,373)	(18)	-	-	(400)	(160)	(6,040)	-
Derecognition – other	(133)	(592)	-	-	-	(276)	-	(1,001)	-
Assets reclassified (to)/from Held for Sale	-	(80)	(1,420)	-	-	(950)	-	(2,450)	-
Reclassifications	-	35,838	-	-	-	35	(35,873)	-	-
Other movements	-	-	-	-	-	-	-	-	-
At 31 March 2012	706,315	972,688	67,225	332,547	1,722	6,777	26,540	2,113,814	166,155

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2011	11,317	27,924	15,319	31,170	-	162	-	85,892	5,288
Depreciation charge	11,802	14,090	6,502	9,414	-	90	-	41,898	2,644
Depreciation written out to the revaluation reserve	-	(3,476)	-	-	-	(35)	-	(3,511)	-
Depreciation written out to the surplus/deficit on provision of services	-	(141)				(75)		(216)	
Derecognition - disposals	-	(63)	(2)	-	-	(5)	-	(70)	-
Other movements in depreciation and impairment	-	(35)	-	-	-	(11)	-	(46)	-
Assets reclassified (to)/from Held for Sale	-	(2)				(5)		(7)	
At 31 March 2012	<u>23,119</u>	<u>38,297</u>	<u>21,819</u>	<u>40,584</u>	<u>-</u>	<u>121</u>	<u>-</u>	<u>123,940</u>	<u>7,932</u>
Net book value									
At 31 March 2012	<u>683,196</u>	<u>934,391</u>	<u>45,406</u>	<u>291,963</u>	<u>1,722</u>	<u>6,656</u>	<u>26,540</u>	<u>1,989,874</u>	<u>158,223</u>
At 31 March 2011	<u>681,782</u>	<u>912,528</u>	<u>34,409</u>	<u>282,140</u>	<u>1,361</u>	<u>8,090</u>	<u>47,705</u>	<u>1,968,015</u>	<u>160,862</u>

Comparative movements in 2010/11

	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 2010	634,260	893,893	37,487	290,100	1,089	9,179	35,591	1,901,599	165,909
Additions	17,656	14,964	12,241	23,210	272	53	14,154	82,550	241
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	44,740	41,164	-	-	-	301	-	86,205	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	(7,835)	-	-	-	(2,438)	-	(10,273)	-
Derecognition - disposals	(3,557)	(295)	-	-	-	(59)	-	(3,911)	-
Derecognition – other	-	-	-	-	-	-	(2,040)	(2,040)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Reclassifications	-	(158)	-	-	-	(65)	-	(223)	-
Other movements	-	(1,281)	-	-	-	1,281	-	-	-
At 31 March 2011	693,099	940,452	49,728	313,310	1,361	8,252	47,705	2,053,907	166,150

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

	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 2010	10,457	19,047	10,289	22,393	-	300	-	62,486	2,644
Depreciation charge	11,317	13,679	5,030	8,777	-	(29)	-	38,774	2,644
Depreciation written out to the revaluation reserve	(10,457)	(4,799)	-	-	-	(87)	-	(15,343)	-
Derecognition - disposals	-	(17)	-	-	-	(4)	-	(21)	-
Other movements in depreciation and impairment	-	14	-	-	-	(18)	-	(4)	-
At 31 March 2011	<u>11,317</u>	<u>27,924</u>	<u>15,319</u>	<u>31,170</u>	<u>-</u>	<u>162</u>	<u>-</u>	<u>85,892</u>	<u>5,288</u>
Net book value									
At 31 March 2011	<u>681,782</u>	<u>912,528</u>	<u>34,409</u>	<u>282,140</u>	<u>1,361</u>	<u>8,090</u>	<u>47,705</u>	<u>1,968,015</u>	<u>160,862</u>

30. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2012, for the acquisition of property, plant and equipment, was £74.851m (31 March 2011 £52.376m). Details of the major commitments by contract or project are as follows:

Contract or Project	2011/12 £m
River Ness Flood Alleviation Scheme	20.876
HRA Housing – Council House New Builds	11.900
HRA Housing heating programmes	7.625
Ben Wyvis Primary – New School	5.775
South West Relief Inverness Flood Prevention Scheme	5.317
Miscellaneous projects with an individual commitment less than £0.5m	4.595
Aviemore Primary – New School	3.976
ICT Contract	3.790
Sconser Ferry Terminal	3.064
HRA Housing re-roofing and insulation programmes	2.898
Kingussie Office rationalisation	1.801
Invernevis House refurbishment phase 2	1.777
Stromeferry By-pass	1.201
HRA Housing kitchen programmes	0.839
Lochaline Primary – New School	0.760
Plockton High – Extension	0.735
HRA Housing – bathroom programmes	0.730
Grant House refurbishment phase 2	0.726
HRA Housing – Glendoe Terrace, Inverness phase 2	0.693
Lochardil Primary – Additional Accommodation	0.685
A861 Drynie Hill	0.679
	<u>80.442</u>

31. 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.

2010/11 £000		2011/12 £000
751,539	Opening capital financing requirement	771,472
	Capital investment	
90,203	Property, plant and equipment	100,042
	Sources of finance	
(4,181)	Capital receipts	(3,872)
(22,734)	Government grants and other contributions	(34,415)
	Sums set aside from revenue	
(8,918)	- direct revenue contributions	(7,119)
(31,058)	- loans fund principal	(32,157)
(21)	House loans	(13)
(3,321)	PPP finance lease creditors	(3,226)
(37)	Movement in long term investments	-
<u>771,472</u>	Closing capital financing requirement	<u>790,712</u>
	Explanation of movements in the year	
19,875	Increase in underlying need to borrow (supported by government financial assistance)	19,227
58	Increase in underlying need to borrow (unsupported by government financial assistance)	13
<u>19,933</u>	Increase in capital financing requirement	<u>19,240</u>

32. Private finance initiatives and similar contracts**Fujitsu Services Ltd**

The Council signed a contract with Fujitsu Services Ltd for the provision of ICT services. The contract is for a five year period from 1 April 2010 with an option to extend for a further two years. The total estimated charges over the 5 years, after efficiency savings, amount to £63.8m.

Community Schools (Highlands) Ltd

The Council signed a PPP contract with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this contract in 2011/12 was £3.350m (2010/11 £3.308m). 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.

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The total amount payable under the contract from April 2011 until July 2027 amounts to £54.7m at current prices. The Council receives Level Playing Field Support from the Scottish Executive towards these costs. This support is estimated to amount to £25.3m over the remaining term of the contract.

Alpha Schools (Highland) Ltd

The Council signed a 30 year PPP contract with Alpha Schools (Highland) Ltd on 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 contract in 2011/12 was £19.036m (2010/11 £18.811m). 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 £475.9m. (estimated cash prices). The Council receives Revenue Support of £7.16m per annum from the Scottish Government towards these costs. This support is estimated to amount to £179.0m over the remaining term of the contract.

Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in note 29.

Liabilities arising from PFI and similar contracts

2010/11 £000		2011/12 £000
(142,860)	As at 1 April 2011	(139,540)
3,320	Repaid in year	3,226
<u>(139,540)</u>	As at 31 March	<u>(136,314)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2012 (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	3,348	19,312	22,660
within 2 to 5 years	14,741	78,687	93,428
within 6 to 10 years	22,520	100,793	123,313
within 11 to 15 years	28,757	102,232	130,989
within 16 to 20 years	28,834	90,542	119,376
within 21 to 25 years	38,114	87,140	125,254
	<u>136,314</u>	<u>478,706</u>	<u>615,020</u>

33. Intangible Assets

31/03/11 £000		31/03/12 £000
	Cost or valuation	
-	As at 31 March 2011	400
400	Revaluations	-
<u>400</u>	As at 31 March 2012	<u>400</u>
	Cumulative depreciation	
-	As at 31 March 2011	80
80	Charge for year	80
<u>80</u>	As at 31 March 2012	<u>160</u>
	Net book value	
<u>320</u>	As at 31 March 2012	<u>240</u>
<u>-</u>	As at 31 March 2011	<u>320</u>

34. Assets held for sale

2010/11 £000		2011/12 £000
1,170	As at 1 April 2011	794
219	Reclassifications	2,443
-	Revaluation increases/(decreases) recognised in the revaluation reserve	502
-	Revaluation increases/(decreases) recognised in the surplus/(deficit) on the provision of services	118
(592)	Assets sold	(1,658)
(3)	Impairment losses	(18)
<u>794</u>	As at 31 March 2012	<u>2,181</u>

35. Long term investments

31/03/11			31/03/12	
Cost £000	Carrying Amount £000		Cost £000	Carrying Amount £000
1,175	908	Inverness Airport Business Park Ltd	1,175	946
-	-	Other long term investments	3,000	3,028
<u>1,175</u>	<u>908</u>		<u>4,175</u>	<u>3,974</u>

36. Inventories

31/03/11 £000		31/03/12 £000
<u>4,636</u>	Raw materials and consumables	<u>6,804</u>

37. Long term debtors

31/03/11		31/03/12
£		£
17,907	Police Board	17,224
11,148	Fire Board	10,138
11,338	Landbanking fund advances	10,003
182	House Loans	168
39	Car Loans	39
157	Other loans	870
4,970	Caithness Heat and Power	5,336
<u>(4,970)</u>	Caithness Heat and Power Impairment	<u>(5,336)</u>
<u>40,771</u>	Long term debtors (net of impairment)	<u>38,442</u>

38. Short term debtors

31/03/11		31/03/12
£000		£000
9,023	Central government bodies	9,318
2,661	Other local authorities	821
3,002	NHS bodies	3,492
160	Public corporations	2,823
<u>23,867</u>	Other entities and individuals	<u>40,304</u>
<u>38,713</u>	Total (net of impairment)	<u>56,758</u>

39. Short term creditors

31/03/11		31/03/12
£000		£000
12,528	Central government bodies	13,419
2,714	Other local authorities	4,158
152	NHS bodies	175
622	Public corporations	824
6,314	Finance lease creditors	6,940
<u>68,050</u>	Other entities and individuals	<u>74,759</u>
<u>90,380</u>	Total	<u>100,275</u>

40. Provisions

	Note	At 1/04/11	Increase in provision	Use of provision	Unused amounts reversed during the year	At 31/03/12
		£000	£000	£000	£000	£000
Caithness Heat and Power Ltd	1	2,803	-	-	-	2,803
Equal Pay	2	3,778	-	(3,173)	-	605
Single Status	2	1,418	642	(1,418)	-	642
Insurance	3	524	311	(524)	-	311
		<u>8,523</u>	<u>953</u>	<u>(5,115)</u>	<u>-</u>	<u>4,361</u>

(1) Provision has been made for the repayment of grants received where conditions have not been met

(2) Provision has been made, based on historical experience, to meet the costs of outstanding equal pay and single status claims and appeals against job evaluation outcomes and any other related liabilities

(3) Provision has been made for insurance claims outstanding at the balance sheet date

41. Long Term Liabilities

31/03/11		31/03/12
£000		£000
152,616	Pension Liability	289,466
133,225	Finance lease creditors	129,373
<u>285,841</u>		<u>418,839</u>

42. 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 2012 is £0.310m.

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

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.

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

Landfill penalties

The Council has not met its target for Biodegradable Municipal Waste to landfill during any year from 2008/09 onwards. No provision has been made in the accounts for potential penalties of £3.736m which are currently suspended by the Government.

Caithness Heat and Power Limited

Following the decision taken by Highland Council on 12 May 2011 to terminate the procurement process to identify a new operator for the district heating system in Wick, the Council further decided on 27 October 2011 to procure the trade and assets of Caithness Heat and Power Limited for £1 and to enter negotiations with the company to agree that it would cease trading as soon as possible. It was subsequently agreed that Caithness Heat and Power Ltd would cease trading on 23 December 2011. As part of the disposal of the assets, an operator purchased at auction some of the assets formerly owned by Caithness Heat and Power Ltd and this operator is intending to commence energy supply operations to the former customers of the company early in 2012/13. The amount of any liabilities that may fall on the Council is dependent on the extent to which this operator meets funding and other requirements which is currently unquantifiable.

43. Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12

2010/11 £000		2011/12 £000
	Credited to Taxation and non-specific grant income	
392,094	Revenue support grant	375,334
<u>87,244</u>	Non domestic rates	<u>94,846</u>
479,338		470,180
	Credited to services	
	Specific ring-fenced grants	
970	Gaelic	970
1,039	Determined to succeed	-
451	Supported employment	-
	Department of Works and Pensions	
52,350	Housing benefits	52,559
22,733	Capital grants and contributions	34,415
	General Fund Housing	
1,620	Public Sector Housing Grant	1,660
-	Universal Home Insulation	406
	Transport, Environment and Community Services	
72	Scottish Government – Road repairs	1,584
333	Scottish Government – Private water supplies	198
157	Transport Scotland – Trunk Road Schemes	261
103	Food Standards Agency – Shellfish Hygiene	35
	Education, Culture and Sport	
1028	EMA Co-ordination	1,073
489	Youth music initiative	-
253	Activity agreement pilots	281
	Social Work Services	
3,783	Criminal Justice Grant	3,225
10,346	NHS Resource Transfer	9,753
	Credited to Council Tax Income	
13,653	Council tax benefits	13,568
<u>588,718</u>	Total	<u>590,168</u>

44. Financial instrument balances

Categories of Financial Instruments

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

31/03/11			31/03/12	
Long term £000	Current £000		Long term £000	Current £000
		Investments		
908	52,450	Loans and receivables	3,974	67,021
908	52,450	Total investments	3,974	67,021
		Debtors		
40,771	74,618	Loans and receivables	38,442	54,130
908	-	Financial assets carried at contract amounts	3,974	3,050
41,679	74,618	Total included in Debtors	42,416	57,180
		Borrowing		
596,014	49,640	Financial liabilities at amortised costs	625,695	67,991
596,014	49,640	Total Borrowing	625,695	67,991
		Other long term liabilities		
133,225	-	PFI and finance lease liabilities	129,373	-
152,616	-	Other long term liabilities	289,466	-
285,841	-	Total other long term liabilities	418,839	-
		Creditors		
-	90,380	Financial liabilities at contract amount	-	100,275
-	90,380	Total creditors	-	100,275

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.

2010/11 £000			2011/12 £000	
10,306	Balance at 1 April 2011		11,338	
2,460	Nominal value of new loans made in the year		1,430	
(1,506)	Loans repaid in the year		(1,558)	
-	Loans written off in the year		(207)	
78	Fair value adjustment re interest uncharged in year		625	
-	Grants and feasibility studies		(1,625)	
11,338	Balance at 31 March 2012		10,003	

Loans to Inverness Airport Business Park

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

2010/11 £000		2011/12 £000
940	Balance at 1 April 2011	908
(86)	Increase in discounted amount	(19)
54	Fair value adjustment re interest uncharged in year	57
<u>908</u>	Balance at 31 March 2012	<u>946</u>

Valuation assumptions

The interest rate at which the fair value of soft loans has been calculated is 4.87% being the Council's cost of borrowing at 1 April 2011.

45. 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 2012	Financial liabilities	Financial assets	
	Liabilities £000	Loans and receivables £000	Total £000
Interest payable and similar charges	(41,312)	-	(41,312)
Interest and investment income	-	515	515
Net gain/(loss) for year	<u>(41,312)</u>	<u>515</u>	<u>(40,797)</u>

Year to 31 March 2011	Financial liabilities	Financial assets	
	Liabilities £000	Loans and receivables £000	Total £000
Interest payable and similar charges	(40,726)	-	(40,726)
Interest and investment income	-	435	435
Net gain/(loss) for year	<u>(40,726)</u>	<u>435</u>	<u>(40,291)</u>

Fair values of assets and liabilities carried at amortised cost

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

Methods and assumptions in valuation techniques

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

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

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2012 using bid prices were applicable.

The calculations are made using the follow assumptions:

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

The fair values are calculated as follows:

Fair value of liabilities carried at amortised cost

31/03/11			31/03/12	
Carrying Amount	Fair Value		Carrying amount	Fair value
£000	£000		£000	£000
475,251	498,276	PWLB debt	528,350	612,376
121,054	145,059	LOBOs	121,051	130,365
23,998	24,270	Market loans	26,086	26,236
<u>620,303</u>	<u>667,605</u>	Financial liabilities	<u>675,487</u>	<u>768,977</u>

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

Fair value of assets carried at amortised cost

31/03/11			31/03/12	
Carrying Amount	Fair Value		Carrying amount	Fair value
£000	£000		£000	£000
44,547	44,547	Call accounts	51,271	51,271
7,903	7,906	Fixed term deposits	18,777	18,830
40,771	40,771	Long term debtors	38,442	38,442
<u>93,221</u>	<u>93,224</u>	Financial assets	<u>108,490</u>	<u>108,543</u>

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

46. 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:

31/03/11		31/03/12
£000		£000
4,478	Less than three months	5,145
686	Three to six months	564
783	Six to twelve months	1,001
<u>2,890</u>	More than twelve months	<u>3,015</u>
<u>8,837</u>	Total	<u>9,725</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.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

According to the assessment strategy, at 31 March 2012, 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	(514)
Impact on Income and Expenditure Account	<u>497</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>(85,136)</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:

31/03/11 £000	Loans outstanding	31/03/12 £000
475,251	Public Works Loans Board	528,350
121,054	Market debt / LOBOs	121,051
23,998	Temporary borrowing	<u>26,086</u>
<u>620,303</u>	Total	<u>675,487</u>
23,074	Less than 1 year	35,472
20,000	Between 1 and 2 years	17,751
28,542	Between 2 and 5 years	32,996
113,482	Between 5 and 10 years	105,627
435,205	More than 10 years	<u>483,641</u>
<u>620,303</u>	Total	<u>675,487</u>

47. Events after the Balance Sheet date

The Statement of Accounts was issued by the Director of Finance on 27 June 2012. 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 2012 the financial statements have been adjusted in all material respects.

From 1 April 2012 Highland Council and NHS Highland working together through The Highland Partnership have entered into a Lead Agency Model Partnership in respect of Adult and Children's services. From that date approximately 1,400 staff posts transferred from Highland Council to NHS Highland and approximately 200 staff posts transferred from NHS Highland to Highland Council under TUPE regulations. In 2012/13 Highland Council will make a financial contribution of approximately £89.845m to NHS Highland in respect of adult services and NHS Highland will make a financial contribution of approximately £8.069m to Highland Council in respect of children's services.

Caithness Heat and Power Limited (CHAP)

Winding Up of CHAP

The Council made an application to the Registrar of Companies on 1 May 2012 to have CHAP struck off. On the assumption there are no objections to this application CHAP should be struck off in Sept 2012.

Sale of part of the Business to Ignis Biomass Limited ("Ignis")

Following the Council's decision to terminate the procurement process to identify a new operator for the District Heating System in Wick, Ignis approached the Council with a view to taking over the supply of heating to as many of CHAP customers that they could attract. As part of this process Ignis purchased, at auction, 3 assets formerly owned by CHAP. The Council also sold the infrastructure and other related assets to Ignis for the nominal sum of £1.

Disposal of Other Assets

A number of the Assets formerly owned by CHAP, and not required by Ignis, were disposed of by auction. As at 31 March 2012, a number of these transactions were ongoing. The net sale proceeds from these transactions will be included in the Council's 2012/13 Annual Accounts. Assets which did not attract a buyer at auction were sold back to the original supplier or to private customers and the proceeds from these transactions will also be included in the Council's 2012/13 Annual Accounts.

Provision of Potential Repayment of Energy Savings Trust grants ("EST grants")

Due to the ongoing and transitional nature of the transactions, and the position with Ignis, as at 31 March 2012, full provision has continued to be made in the Council's 2011/12 Accounts for the potential repayment of EST grants totalling £2.803m. The amount of this provision will be reviewed as part of the closure of the Council's 2012/13 Annual Accounts.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

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

2010/11 £000		2011/12 £000 £000	
	Income		
(41,549)	Dwelling rents (gross)	(42,950)	
(1,440)	Non-dwelling rents (gross)	(824)	
(1,416)	Other income	(335)	
<u>(44,405)</u>			(44,109)
	Expenditure		
15,440	Repairs and maintenance	15,936	
9,700	Supervision and management	8,897	
11,634	Depreciation and impairment of non-current assets	13,313	
1,499	Other expenditure	1,153	
<u>38,273</u>			39,299
(6,132)	Net (income) from HRA services as included in Council Comprehensive Income and Expenditure Statement		(4,810)
445	HRA share of corporate and democratic core	273	
(3,964)	HRA share of non-distributed costs	52	
<u>(3,519)</u>			325
(9,651)	Net expenditure/(income) from HRA services		(4,485)
	HRA share of operation income and expenditure included in the Council's Comprehensive Income and Expenditure Statement		
104	Gain or loss on sale of HRA non-current assets	834	
6,963	Interest payable and similar charges	7,354	
(443)	HRA amortisation of premiums and discounts	(443)	
(40)	HRA interest and investment income	(79)	
283	Pension interest cost and expected return on pension assets	(226)	
<u>6,867</u>			7,440
(2,784)	(Surplus)/deficit for the year on HRA services		2,955

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2010/11 £000		2011/12 £000	£000
(8,804)	Balance on HRA at 1 April 2011		(7,524)
(2,784)	(Surplus)/deficit for the year on HRA Income and Expenditure Statement		2,955
	Adjustments between accounting basis and funding basis under statute		
(104)	Gain or loss on sale of HRA non current assets	(834)	
6,832	Capital expenditure funded by the HRA	5,141	
25	Movement in employee benefits accrual	(14)	
6,753			4,293
	Transfer to the Capital Adjustment Account		
(11,634)	- Depreciation and impairment	(13,313)	
6,392	- repayment of debt	6,327	
(5,242)			(6,986)
3,553	HRA share of contributions to or from the Pensions Reserve		232
443	HRA share of transfer from the Financial Instruments Adjustment Account		443
600	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		336
(2,043)	Transfer from the capital fund		(553)
(7,524)	Balance on HRA at 31 March 2012		(6,804)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/11 £000		31/03/12 £000
1,349	Current tenants	1,179
<u>1,351</u>	Former tenants	<u>1,252</u>
<u>2,700</u>	Total	<u>2,431</u>

2. Uncollectable rent voids

Total uncollectable rent voids of £0.992m (2010/11 £0.722m) have been netted off against rental income

3. Impairment of debtors

In 2011/12 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/11 £000		31/03/12 £000
2,089	Rent arrears	1,879
<u>274</u>	Sundry debts	<u>262</u>
<u>2,363</u>		<u>2,141</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/11 Number	Size	31/03/12 Number
233	1 apartment	240
3,308	2 apartment	3,294
5,470	3 apartment	5,469
4,160	4 apartment	4,124
355	5 apartment	354
29	6 apartment	28
1	7 apartment	-
1	8 apartment	1
<u>1</u>	10 apartment	<u>1</u>
<u>13,558</u>		<u>13,511</u>

COUNCIL TAX

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.

2010/11 £000		2011/12 £000
125,096	Gross council tax levied and contributions in lieu	126,379
	Deduct	
53	Council tax benefits (net of government grants)	15
(14,467)	Other discounts and reductions	(14,610)
(2,905)	Write off uncollectible debts and allowance for impairment	(2,940)
641	Adjustments to previous year's community charge and council tax	1,303
108,418	Net Council Tax income per the Comprehensive Income and Expenditure Statement	110,147

Calculation of the Council Tax base 2011/12

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents
A (dbr)	-	-	40	(4)	-	36	5/9	20
A	19,612	(1,081)	70	(2,432)	(479)	15,690	6/9	10,460
B	22,870	(900)	30	(2,394)	(515)	19,091	7/9	14,849
C	22,198	(627)	(16)	(1,959)	(653)	18,943	8/9	16,838
D	17,375	(357)	49	(1,199)	(529)	15,339	9/9	15,339
E	17,039	(261)	(84)	(909)	(479)	15,306	11/9	18,707
F	8,200	(98)	(49)	(326)	(210)	7,517	13/9	10,858
G	3,912	(49)	(38)	(121)	(146)	3,558	15/9	5,930
H	321	(11)	(2)	(7)	(40)	261	18/9	522
Total	111,527	(3,384)	0	(9,351)	(3,051)	95,741	0	93,523
								170
								(2,811)
								90,882

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

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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 2011/12 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 2011/12

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

2010/11 £000		2011/12 £000
118,526	Gross rates levied and contributions in lieu	128,985
	Deduct:	
(23,859)	Relief's and other deductions	(26,158)
(46)	Payment of interest	(14)
<u>(1,309)</u>	Write-off or uncollectible debts and allowance for impairment	<u>(1,454)</u>
93,312	Net non domestic rate income	101,359
<u>(12)</u>	Adjustment to previous years' national non domestic rates	<u>2,726</u>
<u>93,300</u>	Contribution to the National Non Domestic Rate pool	<u>104,085</u>
	NDR Income distributable amount	
<u>87,244</u>	Net national non domestic rate income per the Comprehensive Income and Expenditure Statement	<u>94,846</u>

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 2011/12 was 42.6p on rateable value equal to or less than £35,000 and 43.3p on rateable value greater than £35,000.

Highland Council Rateable Values

1 April 2010			1 April 2011	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,625	62,435	Shops	2,600	63,361
879	19,190	Public houses and hotels	872	19,077
1,661	27,835	Offices	1,679	28,127
2,688	36,235	Industrial subjects	2,659	39,698
4,328	19,796	Leisure, entertainment, caravans and holiday sites	4,457	20,054
371	4,880	Garages and petrol stations	361	4,863
1,003	20,470	Cultural, sporting subjects, education and training	1,004	21,962
1,170	13,194	Public service subjects	1,160	14,158
2,053	81,294	Miscellaneous	2,043	90,408
<u>16,778</u>	<u>285,329</u>		<u>16,835</u>	<u>301,708</u>

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 on page 45. In addition The Common Good fund has investment properties which are those used solely to earn rentals and for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

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 due to be revalued annually. In 2011/12 only properties held by Inverness Common Good Fund have been revalued. 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 2010/11	Capital Funds £000	Revenue Funds £000	Total Usable Reserves	Unusable Reserves	Total Reserves £000
Balance at 31 March 2010	3,156	7,777	10,933	35,559	46,492
Movement in reserves during 2010/11					
Surplus/(deficit) on operating activities	-	(23)	(23)	(3,884)	(3,907)
Other Comprehensive Expenditure and Income	-	-	-	1,035	1,035
Total Comprehensive Expenditure and income	-	(23)	(23)	(2,849)	(2,872)
Increase/(decrease) in 2010/11	-	(23)	(23)	(2,849)	(2,872)
Balance at 31 March 2011 carried forward	3,156	7,754	10,910	32,710	43,620

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

MOVEMENT IN RESERVES STATEMENT 2011/12	Capital Funds £000	Revenue Funds £000	Total Usable Reserves £000	Unusable Reserves	Total Reserves £000
Balance at 31 March 2011 brought forward	3,156	7,754	10,910	32,710	43,620
Movement in reserves during 2011/12					
Surplus/(deficit) on provision of services	437	721	1,158	-	1,158
Other Comprehensive Expenditure and Income	-	61	61	-	61
Total Comprehensive Expenditure and income	437	782	1,219	-	1,219
Increase/(decrease) in 2011/12 before transfers	437	782	1,219	-	1,219
Transfers to/from other reserves	-	(1,912)	(1,912)	1,912	-
Balance at 31 March 2012 carried forward	3,593	6,624	10,217	34,622	44,839

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		2010/11			2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
1,880	(1,991)	(111)	Inverness	3,270	(2,174)	1,096	
62	(56)	6	Nairn	59	(52)	7	
83	(7)	76	Tain	54	(257)	(203)	
10	(22)	(12)	Dornoch	4	(22)	(18)	
43	(13)	30	Dingwall	11	(13)	(2)	
4	(9)	(5)	Fortrose	13	(13)	-	
20	(4)	16	Cromarty	4	(4)	-	
-	(3)	(3)	Invergordon	6	(3)	3	
<u>2,102</u>	<u>(2,105)</u>	<u>(3)</u>	Cost of services	<u>3,421</u>	<u>(2,538)</u>	<u>883</u>	
		<u>3,910</u>	Financing and investment income and expenditure (note 1)			<u>(2,041)</u>	
		3,907	(Surplus)/deficit on provision of services			(1,158)	
		<u>(1,035)</u>	(Surplus)/deficit on revaluation of non current assets			<u>(61)</u>	
		(1,035)	Other comprehensive income and expenditure			(61)	
		<u>2,872</u>	Total comprehensive income and expenditure			<u>(1,219)</u>	

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 MARCH 2012**

31/03/11 £000		Notes	31/03/12 £000
	Non Current Assets	2	
-	Property, Plant and Equipment		220
-	Heritage Assets		2,123
30,989	Investment Properties		32,592
2,062	Community Assets		-
-	Intangible Assets	3	28
8,422	Investments	4	8,859
<u>41,473</u>			<u>43,822</u>
	Current Assets		
-	Short Term Investments		1,000
2,966	Cash and cash equivalents	5	921
2	Sundry debtors		93
<u>2,968</u>			<u>2,014</u>
	Current Liabilities		
(87)	Sundry creditors		(263)
<u>2,881</u>	Net current assets		<u>1,751</u>
	Long term liabilities		
(734)	Other long term liabilities		(734)
<u>43,620</u>	Net assets		<u>44,839</u>
	Reserves:		
	Usable Reserves	7	
7,754	Revenue Funds		6,624
3,156	Capital Funds		3,593
<u>10,910</u>			<u>10,217</u>
	Unusable Reserves	6	
32,710	Revaluation Reserve		34,344
-	Donated Assets Account		248
-	Capital Adjustment Account		30
<u>43,620</u>	Total Reserves		<u>44,839</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

CASH FLOW STATEMENT

31/03/11 £000		31/03/12 £000
(3,907)	Net surplus/(deficit) on the provision of services	1,158
3,966	Adjust net surplus/(deficit) on the provision of services for non-cash movements	(2,203)
59	Net cash flow from operating activities	(1,045)
-	Investing activities	(1,000)
2,907	Cash and cash equivalents at 1 April 2011	2,966
2,966	Cash and cash equivalents at 31 March 2012	921

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

2010/11 £000		2011/12 £000
25	Interest and investment income and expenditure	(216)
4,843	(Surplus)/deficit on revaluation of investment properties	(1,573)
(958)	(Surplus)/deficit on revaluation of investments	(252)
<u>3,910</u>		<u>(2,041)</u>

2. Non current assets

Movements in 2011/12

	Investment Properties £000	Community Assets £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value					
As at 1 April 2011	30,989	2,062	-	-	33,051
Additions	30	-	-	220	250
Revaluations	1,573	61	-	-	1,634
Reclassifications	-	(2,123)	2,123	-	-
As at 31 March 2012	<u>32,592</u>	<u>-</u>	<u>2,123</u>	<u>220</u>	<u>34,935</u>
Net book value					
As at 31 March 2012	<u>32,592</u>	<u>-</u>	<u>2,123</u>	<u>220</u>	<u>34,935</u>
As at 31 March 2011	<u>30,989</u>	<u>2,062</u>	<u>-</u>	<u>-</u>	<u>33,051</u>

Movements in 2010/11

	Investment Properties £000	Community Assets £000	Total £000
Gross book value			
As at 1 April 2010	35,832	1,028	36,860
Additions	-	426	426
Revaluations	(4,843)	608	(4,235)
As at 31 March 2011	<u>30,989</u>	<u>2,062</u>	<u>33,051</u>
Net book value			
As at 31 March 2011	<u>30,989</u>	<u>2,062</u>	<u>33,051</u>
As at 31 March 2010	<u>35,832</u>	<u>1,028</u>	<u>36,860</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

Robert Smail (MRICS), Property Manager, Housing and Property Services, Highland Council carried out the asset valuations of investment properties as at 1 April 2011 in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors.

Investment properties include land at Sandown belonging to Nairn Common Good fund.

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

3. Intangible assets

	Fishing Licence £000
As at 1 April 2011	-
Additions	28
Revaluations	-
As at 31 March 2012	<u>28</u>

4. Long Term Investments

31/03/11			31/03/12	
Cost £000	Valuation £000		Cost £000	Valuation £000
		Inverness		
5,653	8,416	Managed portfolio	5,887	8,853
		Nairn		
6	6	Miscellaneous	6	6
<u>5,659</u>	<u>8,422</u>		<u>5,893</u>	<u>8,859</u>

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

31/03/11			31/03/12	
Units Held			Units Held	
Cost £000	Value £000		Cost £000	Value £000
549	561	United Kingdom Fixed Interest	714	751
712	727	Other International Fixed Interest	555	572
2,997	4,371	United Kingdom Equities	3,056	4,680
330	775	North America Equities	330	771
258	523	Continental Europe Equities	258	504
83	114	Japan Equities	83	120
121	469	Far East Equities	121	493
112	427	Emerging Markets Equities	112	357
135	54	Continental Europe Alternative	135	46
110	149	Other International Equities	108	144
246	246	United Kingdom Cash	415	415
<u>5,653</u>	<u>8,416</u>	Total	<u>5,887</u>	<u>8,853</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

5. Cash and cash equivalents

31/03/11		31/03/12
£000		£000
<u>2,966</u>	Balance with Highland Council Loans Fund	<u>921</u>

6. Unusable Reserves

(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Common Good Funds arising from increases in property. The balance is reduced when assets with accumulated gains are:

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

Fund	Balance at 1/04/11 £000	Revaluations 2011/12 £000	Balance at 31/03/12 £000
Inverness	22,204	1,575	23,779
Nairn	9,610	60	9,670
Cromarty	49	-	49
Dingwall	198	-	198
Fortrose	228	7	235
Invergordon	360	-	360
Tain	61	(8)	53
Total	<u>32,710</u>	<u>1,634</u>	<u>34,344</u>

(b) Capital Funds

The Capital Funds represent the permanent capital of the Common Good Funds employed to generate income and are not usable reserves.

Fund	Balance at 1/04/11 £000	Revaluations 2011/12 £000	Balance at 31/03/12 £000
Inverness	2,290	437	2,727
Nairn	217	-	217
Cromarty	8	-	8
Dingwall	31	-	31
Fortrose	84	-	84
Invergordon	10	-	10
Tain	460	-	460
Dornoch	56	-	56
Total	<u>3,156</u>	<u>437</u>	<u>3,593</u>

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2011/12

7. Usable Reserves

Revenue Funds

The Revenue Funds represent the accumulated income of the Common Good Funds and are usable reserves.

Fund	Balance at 1/04/11 £000	Increase/(decrease) 2011/12 £000	Balance at 31/03/12 £000
Inverness	7,238	(1,068)	6,170
Nairn	(222)	(42)	(264)
Cromarty	7	1	8
Dingwall	92	2	94
Fortrose	71	1	72
Invergordon	51	(3)	48
Tain	328	(41)	287
Dornoch	189	20	209
Total	7,754	(1,130)	6,624

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

**CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012**

2010/11				2011/12		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(2)	(46)	(167)	Income	(2)	(52)	(114)
1	43	165	Expenditure	1	42	276
<u>(1)</u>	<u>(3)</u>	<u>(2)</u>	(Surplus)/deficit for the year	<u>(1)</u>	<u>(10)</u>	<u>162</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2011				31 March 2012		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
23	171	1,137	Non current assets			
			Investment at cost	23	964	1,164
			Current assets			
168	2,207	1,043	Debtor - Highland Council Loans Fund	169	1,424	886
-	-	32	Other debtors	-	-	-
<u>168</u>	<u>2,207</u>	<u>1,075</u>		<u>169</u>	<u>1,424</u>	<u>886</u>
<u>191</u>	<u>2,378</u>	<u>2,212</u>	Net assets	<u>192</u>	<u>2,388</u>	<u>2,050</u>
			Capital funds	89	1,866	731
88	1,866	704	Revenue funds	103	522	1,319
<u>103</u>	<u>512</u>	<u>1,508</u>	Total funds	<u>192</u>	<u>2,388</u>	<u>2,050</u>
<u>191</u>	<u>2,378</u>	<u>2,212</u>				

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

CHARITABLE TRUSTS

Highland Council administers eighty registered Scottish Charities which are for the benefit of various specific causes. At 31 March 2012 the balances and investments held are as follows:

31 March 2011			31 March 2012		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
-	-	Beatrice Oilfield Trust - Nairn	1768	-	-
911	-	John Rutherford Trust for Poor of Kildonan	3192	917	-
-	-	John Robert Campbell Bequest for the Poor of Parish of Lairg	4447	-	-
507	500	Miss E Kemp bequest for Poor of Rosemarkie	4881	517	500
872	155	Grantown War Memorial Fund	5071	878	155
8,149	-	West Coast of Ross-Shire (Mainland) Distress Fund	7158	7,906	-
118	101	John Martin Trust for Christmas dinner for the poor of Invergordon	8916	117	101
77	-	McCulloch Bequest for the Poor of Durness	8950	77	-
732	-	John Couper Bequest for Poor of Helmsdale	9516	737	-
-	-	Miss Margaret A Ross Charity Fund	10505	-	-
655	39	Coull Mortification	10813	662	39
-	-	James Asher's Charitable Trust	11444	-	-
-	-	William Murray Morgan Caithness Village Amenities Fund	12300	-	-
4,476	944	Donald Cameron of Erracht Bequest for Poor of Kilmallie	12410	4,521	944
2,249	-	John Rose Troup Charitable Trust	12475	2,255	-
600	-	Grigor Bequest for Confirmed Invalids	12682	594	-
2,365	717	Duncan Cameron Trust for Poor of Abernethy	13277	2,405	717
2,785	-	Grigor Bequest for Poor of Parish of Cawdor	16232	2,795	-
-	-	Miss Margaret A MacLeod Bequest	16326	-	-
-	-	Hugh Wilson Trust	16486	-	-
17,138	-	Highland Heart Fund	17126	17,259	-
-	-	Miss Magdalene Duff Fraser Mortification	18287	-	-
-	-	Jonathan Anderson Mortification for Poor	18296	-	-
589	589	Frederick Klein Mortification	18297	616	589

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

31 March 2011			31 March 2012		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
-	-	Robert Fraser Mortification	18298	-	-
-	-	Thomas Fraser Mortification	18299	-	-
-	-	Evan Baillie Mortification	18300	-	-
-	-	John Burnett Mortification	18301	-	-
-	-	Mrs Isabella Gollan Mortification	18302	-	-
-	-	Mrs Martha Gibson Mortification	18303	-	-
-	-	Robert Smith Mortification	18305	-	-
507	505	Mrs Jane Masson Bequest	18306	525	505
-	-	Dr John Mackintosh Bequest	18307	-	-
-	-	William Macgregor Bequest	18308	-	-
1,010	1,009	F W Grant Bequest	18309	980	1,009
-	-	William Galloway Macdonald Bequest	18310	-	-
-	-	George Melvin Bequest	18311	-	-
-	-	Louis Ormond Fyvie Bequest	18312	-	-
-	-	George Wilson Barron Bequest	18313	-	-
865	-	William Davidson Bequest	18723	871	-
2,776	1,493	Miss Adeleine Florence Henderson Bequests	18724	2,813	1,492
1,104	800	William Murray Bequest for Poor of Wick	18725	1,135	800
14,780	283	William Murray Bequest for Wick Library	18726	14,892	283
862	442	Murray (Olig) Bequest	18727	740	442
402	359	Oswald (Dunnet) Bequest	18728	419	359
1,139	1,050	Davidson - Cumming Bequest	18729	1,070	1,050
223	105	Oswald (Bower) Mortification	18730	224	105
9,206	2,834	Alexander Wares Bequest for Poor	18731	9,288	2,833
13,448	2,350	George Swanson Trust	18732	13,527	2,350
1,527	503	James Cormack Bequest	18733	1,553	503
807	-	John Sutherland Poor Coopers Fund	18734	813	-

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

31 March 2011			31 March 2012		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
333	137	John Jacobus Harper Trust	18735	335	137
159	-	Thomas L Rettie Bequest for Poor	18736	160	-
52	-	Jane Cormack Bequest	18737	53	-
208	-	John Sutherland (Fish Curer) Poor Fund	18738	209	-
1,983	-	Sir Josiah H Symon Poor Fund	18739	1,997	-
-	-	John Miller Bequest	18740	-	-
771	300	Miss L E M Rose Bequest	18995	785	300
771	800	Nairnshire Boot Fund	18997	805	800
12,528	5,000	Miss Emma M Fraser Bequest for the Poor of Nairn	18999	12,614	5,000
2,533	-	Knockie Trust Fund	19557	2,551	-
359	95	Duncan MacBean Bequest	19558	390	95
653	90	Kennedy Trust for Poor	19559	660	90
305	300	John Fraser Bequest	19561	310	300
190	-	Hugh Leslie Bequest	19562	192	-
130	12	George Murray Senior Coal Fund	19563	131	12
362	-	David Thomson Bequest for poor	19564	364	-
362	-	Alex Thomson Bequest for poor	19565	364	-
225	-	David Thomson Bequest for Ex-Seaforth Highlanders	19566	227	-
108	46	Ronald Ross Bequest	19567	110	46
182	-	D Duff Bequest	19568	-	-
-	-	George MacLeod Bequest	19569	184	-
295	19	Tain War Memorial Fund	19570	298	19
1,761	500	Dr Donald Grant Legacy	19694	1,822	500
476	200	George Harvey Trust	19695	487	200
26,323	1,171	Miss Margaret Charlotte Stuart Legacy	19696	26,432	1,171
-	-	Earl of Seafield Bequest for Poor in portions of Cromdale Parish	19697	-	-
-	-	Highland Council Charitable Trusts	25079	-	-
39,216	-	Gairloch High School Howard Doris Fund	28254	39,485	-
10,253	-	Highland Regional Children's Panel 20th Anniversary Trust Fund	28500	10,326	-
<u>191,417</u>	<u>23,448</u>	Total Charitable Trusts		<u>192,397</u>	<u>23,446</u>

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

EDUCATIONAL TRUST FUNDS

Highland Council administers 46 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2012 the balances and investments held are as follows:

31 March 2011				31 March 2012		
Fund Balance	Investments at cost	Investments at valuation		Fund Balance	Investments at cost	Investments at valuation
£000	£000	£000		£000	£000	£000
122	29	24	Caithness Educational Trust	111	29	29
825	-	-	Duncraig Endowment	821	793	-
20	-	2	George Kerr Bequest	20	1	2
28	-	-	Howard Doris fund – Plockton High School	28	-	-
232	46	323	Inverness Royal Academy Educational Trust	239	45	319
200	52	357	Inverness-shire Educational Trust	211	52	447
131	-	-	Manson Bequest – Keiss	132	-	-
125	-	-	Manson Bequest – Nairn and Ardclach	126	-	-
14	-	-	Miss B G Angus Executory	14	-	-
474	37	878	Ross & Cromarty Educational Trust	479	37	1,407
100	-	13	Sutherland Educational Trust	99	-	82
107	7	7	Other Educational Trusts	108	7	8
2,378	171	1,604		2,388	964	2,294

TRUST FUNDS STATEMENT OF ACCOUNTS 2011/12

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. At 31 March 2012 the balances and investments held are as follows:

31 March 2011				31 March 2012		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
870	727	1,106	Inverness Burial Grounds Fund	755	742	1,142
326	333	479	Inverness Benevolent Fund	335	343	487
82	40	57	Inverness 2nd Benevolent Fund	81	42	57
232	-	-	Social Work Amenity Funds	199	-	-
150	-	-	Inverness – Other Trust Funds	151	-	-
7	2	2	Badenoch and Strathspey Trust Funds	7	2	3
184	20	15	Caithness Trust Funds	185	20	18
105	2	2	Lochaber Trust Funds	81	2	2
80	3	2	Nairn Trust Funds	79	3	3
146	9	7	Ross & Cromarty Trust Funds	147	9	8
5	1	-	Skye & Lochalsh Trust Funds	5	1	-
25	-	-	Sutherland Trust Funds	25	-	-
<u>2,212</u>	<u>1,137</u>	<u>1,670</u>	Total other trust funds	<u>2,050</u>	<u>1,164</u>	<u>1,720</u>

GROUP ACCOUNTS

GROUP STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by management within the Council and the Joint Boards. In particular, the system includes:

- Comprehensive budgeting systems.
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts.
- Setting targets to measure financial and other performance.
- The preparation of regular financial reports, which indicate actual expenditure against forecasts.
- Clearly-defined capital expenditure guidelines.
- As appropriate, formal project management disciplines.

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

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

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

- The work of managers within the Boards and Council.
- The work of the internal auditors as described above.
- The external auditors in their annual audit letters and other reports.

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

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

Highland Council

- Weaknesses relating to Highland Council are detailed in the Corporate Governance Statement on pages 19-21 of this document. Appropriate actions to address these weaknesses have been agreed.

Inverness and Nairn Common Good Funds

- No significant weaknesses were identified

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Fire Board

During 2011/12 audits were carried out on payroll, asset management and procurement systems. Some areas of concern were noted and rectifying actions with timescales have been agreed with Board officials.

Northern Joint Police Board

During 2011/12 audits were carried out on payroll, corporate governance and asset management systems. Some areas of concern were noted and rectifying actions with timescales have been agreed with Board officials.

Highland and Islands Transport Partnership

- No weaknesses were identified.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
27 June 2012

THE HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

GROUP ACCOUNTS

GROUP MOVEMENT IN RESERVES STATEMENT 2010/11

	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 2010	29,208	8,804	996	1,385	1,454	32,069	73,916	410,674	484,590
Movement in reserves during 2010/11									
Surplus/(deficit) on provision of services	84,256	3,123	-	96	218	(221)	87,472	-	87,472
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	313,335	313,335
Total Comprehensive Expenditure and income	84,256	3,123	-	96	218	(221)	87,472	313,335	400,807
Adjustments between accounting basis and funding basis under regulations	(72,877)	(6,446)	233	-	-	-	(79,090)	79,090	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	11,379	(3,323)	233	96	218	(221)	8,382	392,425	400,807
Transfers to/from other statutory reserves	(2,738)	2,043	-	5	6	684	-	-	-
Increase/(decrease) in 2010/11	8,641	(1,280)	233	101	224	463	8,382	392,425	400,807
Balance at 31 March 2011 carried forward	37,849	7,524	1,229	1,486	1,678	32,532	82,298	803,099	885,397

GROUP MOVEMENT IN RESERVES STATEMENT 2011/12

	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 2011	37,849	7,524	1,229	1,486	1,678	32,532	82,298	803,099	885,397
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services	15,309	(2,955)	-	-	-	-	12,354	-	12,354
Other Comprehensive Income and Expenditure	24	-	-	-	-	437	461	(189,699)	(189,238)
Total Comprehensive Expenditure and income	15,333	(2,955)	-	-	-	437	12,815	(189,699)	(176,884)
Adjustments between accounting basis and funding basis under regulations	(13,353)	1,682	89	-	-	-	(11,582)	11,582	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	1,980	(1,273)	89	-	-	437	1,233	(178,117)	(176,884)
Transfers to/from other statutory reserves	(1,522)	553	-	179	548	212	(30)	30	-
Increase/(decrease) in 2011/12	458	(720)	89	179	548	649	1,203	(178,087)	(176,884)
Balance at 31 March 2012 carried forward	38,307	6,804	1,318	1,665	2,226	33,181	83,501	625,012	708,513

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2010/11			2011/12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
260,653	(11,885)	248,768	Education Services	265,461	(11,203)	254,258
38,995	(45,466)	(6,471)	Council Housing (Housing Revenue Account)	40,290	(45,100)	(4,810)
78,744	(62,250)	16,494	Other Housing - Housing Services	82,068	(60,576)	21,492
36,404	(8,528)	27,876	Cultural and Related Services	37,544	(5,957)	31,587
45,210	(5,580)	39,630	Environmental Services	46,319	(6,010)	40,309
52,319	(14,071)	38,248	Roads and Transport Services	50,503	(11,262)	39,241
20,138	(12,378)	7,760	Planning and Development Services	21,186	(12,867)	8,319
145,692	(25,644)	120,048	Social Work Services	140,219	(24,739)	115,480
12,666	(18,058)	(5,392)	Central Services to the Public	9,325	(7,620)	1,705
18,867	(791)	18,076	Requisitions – Northern Joint Police Board	19,646	(791)	18,855
15,909	-	15,909	Requisitions – Highland and Islands Fire Board	15,788	-	15,788
2,416	-	2,416	Requisitions – Highlands and Western Isles Valuation Joint Board	2,300	-	2,300
89	-	89	Requisitions - HITRANS	89	-	89
12,842	(189)	12,653	Corporate and Democratic Core	11,497	(154)	11,343
3,392	(82,905)	(79,513)	Non Distributed Costs	6,982	(3,444)	3,538
<u>744,336</u>	<u>(287,745)</u>	<u>456,591</u>	Cost of Services	<u>749,217</u>	<u>(189,723)</u>	<u>559,494</u>
		162	Operating results subsidiaries			1,357
		<u>(10,133)</u>	Operating results associates			<u>7,024</u>
		446,620	Cost of Services			567,875
		(239)	Other operating expenditure			1,858
		43,770	Financing and investment income and expenditure			34,596
		<u>(587,756)</u>	Taxation and non-specific grant income			<u>(611,695)</u>
		(97,605)	Deficit/(Surplus) on provision of services			(7,366)
		(99,619)	Surplus on revaluation of non-current assets			(7,343)
		<u>(203,583)</u>	Actuarial losses/(gains) on pension assets and liabilities			<u>191,593</u>
		(303,202)	Other comprehensive income and expenditure			184,250
		<u>(400,807)</u>	Total Comprehensive Income and Expenditure			<u>176,884</u>

GROUP BALANCE SHEET

31/03/11 £000		31/03/12 £000
1,999,826	Property, plant & equipment	2,021,652
-	Heritage Assets	1,698
320	Intangible assets	240
9,330	Long term investments	12,833
(223,715)	Investments in associates and joint ventures	(275,262)
40,771	Long term debtors (net of impairment)	37,708
<u>1,826,532</u>	Long term assets	<u>1,798,869</u>
-	Short term investments	4,050
4,636	Inventories	6,804
38,715	Short term debtors	56,851
44,017	Cash and cash equivalents	57,286
794	Assets held for sale	2,181
<u>88,162</u>	Current assets	<u>127,172</u>
(47,718)	Short term borrowing	(68,094)
(90,467)	Short term creditors	(100,539)
(8,523)	Provisions	(4,361)
<u>(146,708)</u>	Current liabilities	<u>(172,994)</u>
(596,014)	Long term borrowing	(625,695)
<u>(286,575)</u>	Other long term liabilities	<u>(418,839)</u>
<u>(882,589)</u>	Long term liabilities	<u>(1,044,534)</u>
<u><u>885,397</u></u>	Net assets	<u><u>708,513</u></u>
	Financed by:	
	Reserves	
82,298	Usable reserves	83,501
<u>803,099</u>	Unusable reserves	<u>625,012</u>
<u><u>885,397</u></u>		<u><u>708,513</u></u>

The unaudited Statement of Accounts was issued on 27 June 2012 and the audited Statement of Accounts was authorised for issue on 25 October 2012.

Derek Yule B.Com, CPFA, IRRV(Hons)
 Director of Finance
 27 June 2012

GROUP CASH FLOW STATEMENT

2010/11 £000		2011/12 £000
97,605	Net surplus on the provision of services	7,366
(8,303)	Adjust net surplus or deficit on the provision of services for non-cash movements	78,180
(22,734)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(34,416)
<u>66,568</u>	Net cash flow from operating activities	<u>51,130</u>
(90,858)	Investing activities	(98,924)
34,623	Financing activities	61,063
<u>10,333</u>	Net increase or decrease in cash and cash equivalents	<u>13,269</u>
33,684	Cash and cash equivalents at 1 April 2011	44,017
<u><u>44,017</u></u>	Cash and cash equivalents at 31 March 2012	<u><u>57,286</u></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 45.

3. Financial impact of consolidation

By including the associate bodies (details of which are provided in note 4), the effect on the group balance sheet is a reduction in both reserves and net assets of £0.179m. This represents Highland Council's share of the net liabilities 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 both the Inverness Common Good and Nairn Common Good Funds.

Associates

Highland Council has the percentage interests in the following associates:

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

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 HIGHLAND COUNCIL STATEMENT OF ACCOUNTS 2011/12

The financial results of the Joint Boards for 2011/12 were as follows:

Results for the year	Surplus/(deficit)	Net liabilities
	on provision of services £000	£000
Highland and Islands Fire Board	2,759	(60,402)
Northern Joint Police Board	7,906	(347,316)
Highland and Western Isles Joint Valuation Board	(110)	(4,081)
Highland and Islands Transport Partnership	(7)	(182)
	<u>10,548</u>	<u>(411,981)</u>

Group share	%	Surplus/(deficit)	Net liabilities
		on provision of services £000	£000
Highland and Islands Fire Board	66.7	1,840	(40,288)
Northern Joint Police Board	66.7	5,273	(231,660)
Highland and Western Isles Joint Valuation Board	80.0	(88)	(3,265)
Highland and Islands Transport Partnership	27.3	(2)	(50)
		<u>7,023</u>	<u>(275,263)</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.

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

6. Events after the Balance Sheet date

The Statement of Accounts was issued by the Director of Finance on 27 June 2012. 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 2012 the financial statements have been adjusted in all material respects.

GLOSSARY OF TERMS

Accruals: The concept that income and expenditure are recognised as they are earned or incurred, not as money received or paid.

Actuarial Gains and Losses (Pensions): The changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

Amortised Cost: To amortise an amount involves the gradual reduction of that amount over time. An amortised cost is a value that has been amortised i.e. it is not the same as its original cost or value.

Assets held for sale: Property or other assets which the Council expect to sell within the next 12 months

Associates: These are entities other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

Capital Expenditure: Expenditure on the acquisition of a non-current asset or expenditure which adds to, and not merely maintains, the value of an existing non-current asset.

Capital Financed from Current Revenue (CFCR): The use of revenue funding to contribute to the cost of capital expenditure.

Capital Financing Cost: This represents the annual cost of financing the sums borrowed by the Council to fund capital programmes, being the repayment of debt, interest on monies borrowed and expenses incurred in managing the debt portfolio.

Cash and Cash Equivalents: Cash is represented by notes and coins held by the Council and deposits available on demand. Cash equivalents are short-term, highly liquid investments which are rapidly convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Community Assets: Assets that the Council intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Contingent Liability: A contingent liability is either:

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core: The Corporate and Democratic Core comprises all activities which the Council engages in specifically because it is an elected multi-purpose authority. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services.

Current Service (Pensions) Cost: The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailments (Pensions): An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Defined Contribution Scheme: A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined Benefit Scheme: A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation: The measure of wearing out, consumption or other reduction in the useful economic life of a non-current asset whether arising from use, passage of time or obsolescence through technological or other changes.

Entity: A corporate body, partnership, trust, unincorporated association, or statutory body, that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single entity accounts.

Extinguishment: Extinguishment relates to financial liabilities and occurs when the Council's legal obligations end, either through the cancellation or expiry of the obligations or through payment being made to settle the amount owed by the Council.

Expected Return on Pension Assets: The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value: The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Government Grants: Assistance by Government and inter-government agencies and similar bodies whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the Council.

Heritage Assets: Tangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture

Impairment: An asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure Assets: Non-current Assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets: Intangible assets are non-financial assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights e.g. software licenses.

Interest Cost (Pensions): The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment Properties: Interest in land and/or buildings which is held for its investment potential, rental income being negotiated at arm's length.

National Non Domestic Rates Pool: All non-domestic rates collected by local authorities are remitted to the national pool and, thereafter, distributed to councils by the Scottish Government.

Net Book Value: The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

Non Current Assets: Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Non Distributable Costs: These are other central costs, which are not included within the total cost of individual Services. These include the IAS19 charges for Pension Costs.

Non Operational Assets: Non-current assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Leases: A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

Operational Assets: Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Past Service Costs (Pensions): The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Public Works Loans Board (PWLB): A Government Agency which provides long term loans to Councils from the National Loans Fund at rates of interest determined by the Treasury

Requisitions: The Council pays a contribution, known as a requisition, to the: Northern Joint Police Board, Highland and Islands Fire Board, Highland and Western Isles Valuation Joint Board and the Highland and Islands Transport Partnership in respect of services provided.

Reserves: Sometimes referred to as 'Balances' they are the accumulated surpluses generated by the various funds. Within the General Fund a proportion of the total can be earmarked for specific purposes.

Revenue Support Grant: A block grant received from Government to help finance the cost of the Council's services.

Significant Interest: The reporting authority is actively involved and is influential in the direction of an entity through its participation in policy decisions.

Soft Loans: Loans made at significantly below market rates are known as "soft loans" because there may be some element of "subsidy" between what the loans would cost at market rates and the amount of interest actually charged.

Specific Government Grant: These are grants received from Central Government in respect of a specific purpose or service.

Unusable Reserves: Reserves that the Council is not able to use to provide services

Usable Reserves: Those reserves that contain resources which the Council can apply to the provision of services

Useful Life: The period over which the local authority will derive benefits from the use of a non-current asset.