Highland and Islands Fire Board

Statement of Accounts

(unaudited)

2012/2013

CONTENTS

EXPLANATORY FOREWORD BY THE TREASURER TO THE BOARD

Statement of Accounts

The Statement of Accounts reports on the financial performance of the Highland and Islands Fire Board for the year ended 31 March 2013. This is the final Statement of Accounts for the Board following the merger of Fire and Rescue Services across Scotland from the 1st April 2013.

The Statement of Accounts (the Accounts) comprise:

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Board, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Board's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before Transfers to Statutory Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from statutory reserves undertaken by the Board.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS), rather than the amount to be funded from requisitions from constituent authorities. The funding position is shown in the Movement in Reserves Statement.

Balance Sheet

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

Cash Flow Statement

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

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 detail of certain aspects contained within the core financial statements.

Changes in Accounting Policies

For the first year, FRS 30 – Heritage Assets should be applied.

Heritage Assets

The Board holds a collection of fire fighting equipment and fire service memorabilia which is not recognised in the Balance Sheet as cost information is not readily available. The benefits of obtaining valuations for these items would not justify the cost. There have been no transactions in fire fighting and fire service memorabilia during 2012/13.

The Board maintains a collection of fire fighting equipment and fire service memorabilia which is located at its premises in Inverness. The Board makes no active acquisitions or disposals. As part of the transition to a single Scottish Fire Service, a common Scottish fire services policy is being developed.

Summary of financial results

The movements and balances on the Board's revenue reserves for 2012/13 are summarised below:

General Fund Balance

Balance at 01.04.12	£1.556m
Budgeted Transfer from Reserves	(£1.083m)
2012/13 Deficit	(£0.428m)
Closing Requisition Adjustment	(£0.045m)
Balance at 31.03.13	-

Revenue Budget Performance

The Board's financial results for the year, compared against budget are as shown below.

Budget Performance
Year ended 31 March 2013

	Budget £000	Actual £000	Variance £000
Staff	16,477	17,030	553
Pension Costs	5,283	5,283	-
Property	1,967	1,870	(97)
Administration	832	861	29
Supplies and services	1,346	1,484	138
Transport and plant	485	544	59
Capital charges	1,405	1,362	(43)
Capital funded from current revenue	386	474	88
Gross expenditure	28,181	28,908	727
Pension contributions and transfer values	(5,283)	(5,283)	-
Interest on revenue balances	-	(26)	(26)
Other income	(29)	(302)	(273)
Gross income	(5,312)	(5,611)	(299)
Net operating expenditure	**22,869**	**23,297**	**428**
Requisitions	21,786	21,741	(45)
Transfer from reserves	1,083	1,556	473
Total funding	**22,869**	**23,297**	**428**

The Comprehensive Income and Expenditure Statement on page 20 shows net cost of services as £26.331m. The difference of £3.034m from the £23.297m reported above is explained in note 18 to the financial statements.

Budget Variances

The Board's budgeted expenditure in 2012/13 was £22.869m (2011/12 £21.786) and the actual expenditure for the year was £23.297m which results in an overspend of £0.428m.

Staff costs during 2012/13 were £0.553m overspent due to the following: higher than anticipated ill health retirals (£0.280m); National Insurance relating to Equal Treatment for Part Time Workers (£0.127m); Voluntary Severance costs for Support Staff (£0.052m); increased Home Fire Safety Activity (£0.020m); and as a result of the Safer Firefighter Programme, increased costs for training/travel, external support, and agency staff (£0.185m). The overspend has been partially offset by an underspend in Retaining Fees, and savings from staff vacancies.

Property Costs were underspent by £0.097m; costs incurred in the Decommissioning of Hilltop Sites were £0.068m less than budgeted. As a result of additional work on reorganisation of the Service, higher than anticipated recharges from the Highland Council are the main factor in the Administration year end variance.

During 2012/13, additional PC's and Mobile Data Terminals were rolled out to all 2 pump stations, which contributed to an in increase in IT costs of £0.138m.

Transport costs were overspent mainly due to increased vehicle maintenance (£0.058m), in particular extra costs were incurred on the retrieval of appliances from remote locations.
The servicing of the debt managed by Highland Council produced an underspend of £0.043m on capital charges in the year.

The Board had previously agreed to fund £0.386m of capital expenditure from Revenue. However, actual costs incurred were £0.088m greater. A significant contributing factor to this was due to a joint project with Orkney Islands Council to fund a 4 x 4 appliance. This project did not progress as planned and it was agreed that the Board would therefore meet the total project costs.

Other Income was greater than expected, mainly due to Scottish Government funding of the Voluntary Severance Programme (£0.194m). Extra income was also received in respect of Catering (£0.020m), and Support Staff Secondments to Fire Reform (£0.016m).

Comparison of Budgeted and Actual Requisitions

2011/12 £000		2012/13 £000
21,881	Net expenditure to be met by Constituent Authorities	23,297
(21,786)	Budgeted requisitions for the year	(21,786)
(351)	Funding from general reserve	(1,083)
(256)	Under requisition for the year	428
256	Transfer to/(from) general reserve	(473)
-	Due to constituent authorities	(45)

Overspend

The overspend is funded by a transfer of £0.428m from reserves. As 2012/13 is the final year of the Highlands & Islands Fire Board the balance in reserves has been returned to the Constituent Authorities in the same proportion as their agreed budget requisition. This arrangement is in accordance with the requirements of Local Government Finance Circular 4/2013.

The net expenditure of the Board's service is allocated between the constituent authorities, in the same proportion as their agreed budgeted requisition. For 2012/13 the actual requisitions of the Board from its Constituent Authorities have been allocated as follows:

2011/12		Constituent authority	2012/13	
£m	%		£m	%
15.788	71.32	Highland Council	15.614	71.82
2.307	10.42	Comhairle Nan Eilean Siar	2.261	10.40
1.778	8.03	Orkney Islands Council	1.675	7.70
2.264	10.23	Shetland Islands Council	2.191	10.08
22.137	100.00	Total	21.741	100.00

Requisition Balances

Constituent authority	2012/13 Budget £m	2012/13 Actual £m	Balance due from/(to) constituent authority £m
Highland Council	15.646	15.614	(0.032)
Comhairle Nan Eilean Siar	2.266	2.261	(0.005)
Orkney Islands Council	1.678	1.675	(0.003)
Shetland Islands Council	2.196	2.191	(0.005)
Total	21.786	21.741	(0.045)

Capital Expenditure and Borrowing

The Board uses The Highland Council's Loans Fund for their borrowing requirements and currently has £9.265m of outstanding advances from the Loans Fund (2011/12 £10.139m).

From 1 April 2004, provisions in the Local Government Scotland Act 2003, replaced the Section 94 consents with cash grants. In addition the Fire Board is able to determine the most appropriate level of capital expenditure for the Board's circumstances, being guided by the Prudential Code, which requires the Board to ensure that any capital borrowing is affordable, prudent and sustainable. To date the Board has not used Prudential Borrowing.

As shown in Note 28, in 2012/13 the Board developed a capital programme of £2.971m, funded by capital grant of £2.379m, £0.045m of the unspent capital grant brought forward, and capital receipts of £0.073m. The Board also agreed to fund capital of £0.474m (2011/12 £0.351m) from available revenue.

During 2012/13 new stations were completed at John o'Groats, St Margaret's Hope, Fair Isle, and Whalsay.

International Accounting Standard 19 (IAS 19) "Employee Benefits"

IAS 19 prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

The Board participates in two pension schemes:

a) The Firefighters' Pension Scheme – this is an unfunded scheme which means that no investment assets are built up to fund future liabilities. Instead, the net cost of pensions and other benefits (after allowing for contributions from firefighters) is borne annually by the Board;

b) The Local Government Pension Scheme - this is a funded scheme which means that the Board and employees pay contributions into a fund, calculated at a level to balance the pension liabilities with the investment assets.

Note 20 to the Financial Statements details the expenditure charged to the Comprehensive Income and Expenditure Statement under IAS 19 in respect of both the Firefighters Pension Scheme and the Local Government Scheme, based upon actuarial valuations. The Board has a net pension liability of £101.526m as at 31 March 2013 (£96.453m as at 31 March 2012), comprising £96.485m in respect of Firefighters and £5.041m in respect of civilian staff (£91.754m in respect of Firefighters and £4.699m. in respect of civilian staff as at 31 March 2012). This liability is accounted for within the balance sheet and through the creation of a pension reserve.

Note 21 to the financial statements details the expenditure charged to the Comprehensive Income and Expenditure Statement under IAS 19 in respect of Injury benefit for both of the Firefighters Pension Schemes. The board has a net injury benefit liability of £1.662m as at 31 March 2013 (£1.609m as at 31 March 2012).

Due to the accrual of these pension and injury benefit liabilities the balance sheet shows an excess of liabilities over assets of £65.681m (31 March 2012 £60.402m).

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Board. The liability relates to the benefits earned by existing or previous employees up to 31 March 2013.

Firefighters pensions are funded from employer's contribution of 21.8% for the old scheme and 11.5% for the new scheme. The Scottish Government has provided additional funding to the Board to meet these costs.

Going Concern

The Board has adopted a going concern basis of accounting for the preparation of the statement of accounts as future actuarial valuations of the Local Government Pension Scheme will consider the appropriate employer's rate to meet the commitments of the fund and constituent authorities are liable to fund the liabilities of the Board as they fall due.

The IAS 19 Pension and Injury Benefits Liabilities of £103.188m has a substantial impact on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £65.681m.

Changes in Accounting Practice

The Police and Fire Reform (Scotland) Bill 2012 has been passed and provides for a significant change in how the fire and rescue will be delivered in Scotland. Highlands and Islands Fire and Rescue Service will cease to exist from 31 March 2013 and the services will be provided by the new Single Scottish Fire Service. The Local Government Finance Circular 4/2013 instructs that the balance of Fire Board reserves at 31.03.13 be returned to constituent authorities.

Economic Climate

As part of the Fire Reform Process, where the individual services become a single Scottish Fire and Rescue Service on 1st April 2013, significant efficiency savings are required to ensure the new service operates within the available funding in future years. Work is underway to identify such savings and ensure future financial planning takes account of these constraints.

Derek Yule B.Com, CPFA, IRRV(Hons)
Treasurer
12 June 2013

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Board's Responsibilities

The Board is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Highland and Islands Fire Board that officer is the Treasurer to the Board;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Board'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 2012/13 ('the Code').

In preparing this statement of accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with 'the Code'.

The Treasurer has also:

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I, Derek Yule, Treasurer to the Board, state that the Statement of Accounts for the year ended 31 March 2013 give a true and fair view of the financial position of the Board at that date and its Income and Expenditure for the year then ended.

Derek Yule B.Com, CPFA, IRRV(Hons)
Treasurer
12 June 2013

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for Highland and Islands Fire Board for the year ended 31 March 2013. 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 Board. In particular, the system includes:

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

The Treasurer to the Board has overall responsibility for Internal Audit in Highland and Islands Fire Board. The Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance an audit working group has been established. The remit of this group includes:

- Consideration of reports from the internal auditor on the adequacy of the Board's financial systems, policies and practices and their compliance with the relevant statutes, standards and guidance;
- Consideration of management reports presented by the external auditor to the Best Value and Audit Working Group;
- Review and approval of the internal audit programme; and
- Consideration of Best Value issues.

The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control, with appropriate consideration being given to risk and value for money.

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

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

In 2010 CIPFA issued its Statement on the Role of the Chief Financial Officer in Local Government together with an application note enabling authorities to review the effectiveness of their own governance arrangements by reference to best practice and using self-assessment. This review has been undertaken and the arrangements within the Fire Service are broadly compliant with the CIPFA Statement. One area of exception is the requirement for the Chief Financial Officer (nb the Treasurer) to report directly to the Chief Executive (nb the Chief Fire Officer) and be a member of the leadership team. With regard to the Fire Service the following arrangements are in place which contribute to delivering the same impact:

- The Fire Board's Financial Regulations recognise the Treasurer as being "responsible for the proper financial administration of the Board's affairs, and acts as financial adviser to the Board." In addition, the Regulations require:
    - That the Chief Fire Officer ensures that all spending conforms to proper accounting standards and will seek appropriate clarification on such matters from the Treasurer.
    - The accounting procedures, records of the Board and Annual Accounts to be prepared in accordance with directions provided by the Treasurer.
    - Reports to the Board containing financial implications to be discussed with the Treasurer.
- The Treasurer is represented by qualified Finance Staff within the Fire Service.

It is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Highlands and Islands Fire & Rescue Service's internal control systems for the year to 31st March 2013.

This opinion is supported by work undertaken to examine operation of the key controls within the main financial systems; Creditors, Debtors, General Ledger, Income, Payroll and Budgetary Control. The audit approach involved reviewing the procedures in place for the key controls to ensure that these were sufficient and then selecting a sample of transactions to test that the key controls operated as expected.

Derek Yule B.Com, CPFA, IRRV(Hons)
Treasurer
12 June 2013

REMUNERATION REPORT

All information disclosed in the tables in the Remuneration Report will be been audited by Audit Scotland and the other sections will be reviewed by Audit Scotland to ensure that they are consistent with the Financial Statements.

Appointments

The appointment of Chief Officers is delegated by the Highland and Islands Fire Board to an appointments sub committee to manage the appointment process. The group consists of 5 Board members including the Convenor and Vice Convenor. The remit of the sub committee is to conduct the selection process for the posts of Chief Fire Officer and Deputy Chief Fire Officer and to carry out annual and mid-year appraisals of the Chief Fire Officer.

Remuneration Policy

Senior Employees

Although there is a national pay framework in place, the Fire Board has negotiated a more flexible local arrangement. The Fire Board in November 2008 agreed that the Principal Officer salaries would be reviewed against the post of Chief Executive, the Highland Council. The Scottish Joint Negotiating Committee (SJNC) for 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 anchor point for Chief Fire Officer's pay is 82.5% of that of the Chief Executive, the Highland Council. The DCFO and ACFO salaries are based on notional percentage links of 80% and 75% of Chief Fire Officer's pay. This arrangement is reviewed annually. Salaries and other benefits are reviewed and agreed by the whole Fire Board.

Senior Councillors

The Convener and Vice-convener of Highland and Islands Fire Board are remunerated by the Council of which they are a council member.

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 purpose of remuneration, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. These regulations also set out the amounts a councillor may be paid for being a convener or vice-convener of a Joint Board. This is inclusive of any amount payable to them as either a Councillor or Senior Councillor.

The Board has an arrangement with Orkney Islands and Highland Councils who remunerate the Convener and Vice-convener respectively to reimburse the Council for the additional costs of that councillor arising from them being a Convener and Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the Council by the Board for remuneration and do not reflect the full value of remuneration that may be paid to the councillor.

Remuneration of Senior Employees of the Board

The remuneration of senior employees who served over the year to 31 March 2013 is noted below:

	Salary, Fees and allowance 2012/13	Taxable Expenses	Total Remuneration 2012/13	Total Remuneration 2011/12
	£	£	£	£
Trevor Johnson, Acting Chief Fire Officer until 18 January 2013	136,049 (Full year equivalent £115,592)	4,193	140,242	113,121
Mike Holme, Acting Deputy Chief Fire Officer until 23 November 2012	60,298 (Full year equivalent £92,474)	4,300	64,598	91,682
Billy Wilson, Interim Assistant Chief Fire Officer from 23 November 2012	30,641 Full year equivalent (£86,694)	480	31,121	*-

*no comparative figure as employee did not hold a senior post during 2011/12

Stewart Edgar was seconded to the Service from 1 February 2012 as Deputy Chief Fire Officer. In the continued absence of the Acting Chief Fire Officer in November 2012 Stewart Edgar was appointed to “Interim Leader in the role of Deputy Chief Fire Officer with the appropriate responsibility allowance and became the Interim Chief Fire Officer from 19 January 2013. The total employment costs paid to Tayside Fire and Rescue Service in respect of his secondment for 2012/13 financial year are £113,751, along with £5,617 in respect of lease car provided by Tayside Fire and Rescue Service.

The senior employees included in the table include any employee:

- Who has responsibility for the management of the Board to the extent that the person has power to direct or control the major activities of the Board (including activities involving the expenditure of money), during the year to which the report relates, whether solely or collectively with other persons.
- Who holds a post that is politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government and Housing Act 1989; or
- Whose Annual remuneration is £150,000 or more.

The Board also receives services from the Treasurer and the Clerk under a Service Level Agreement with Highland Council. The individuals involved received no additional payments for carrying out these roles and are included in the Council’s remuneration report.

The table below provides information on the number of persons whose remuneration was £50,000 or more. The remuneration is for actual remuneration paid to any person. Any starters or leavers in the year are recorded in the remuneration bands that match their actual remuneration in the year.

Remuneration by Pay Band

Remuneration Bands			
From	**To**	**2012-13**	**2011-12**
£50,000	£54,999	2	5
£55,000	£59,999	8	9
£60,000	£64,999	7	4
£65,000	£69,999	-	-
£70,000	£74,999	-	1
£75,000	£79,999	-	1
£80,000	£84,999	1	-
£85,000	£89,999	1	-
£90,000	£94,999	-	-
£95,000	£99,999	-	1
£100,000	£104,999	-	-
£105,000	£109,999	-	-
£110,000	£114,999	-	1
£115,000	£119,999	-	-
£120,000	£124,999	-	-
£125,000	£129,999	-	-
£130,000	£134,999	-	-
£135,000	£139,999	1	-
Total		**20**	**22**

Exit Disclosures

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. The net savings from these redundancies, on an actuarial basis, are £0.495m in 2012/13 (0 in 2011/12). None of these packages relate to compulsory redundancy.

Number of Employees 2011-12	**Total Cost 2011-12**		**Number of Employees 2012-13**	**Total Cost 2012-13**
	£			£
-	-	£0 - £20,000	1	11,738
-	-	£20,001 - £40,000	-	-
-	-	£40,001 - £60,000	1	57,317
-	-	£60,001 - £80,000	-	-
-	-	£80,001 - £100,000	-	-
-	-	£100,001 - £150,000	-	-
-	-	£150,001 - £200,000	1	184,967
-	**-**	**TOTAL**	**3**	**254,022**

Senior Councillors and Conveners and Vice Conveners of Joint Boards

The following table provides details of the remuneration paid to the Convener and Vice Convener of the Highland and Islands Fire Board:

	2012-13				2011-12
Councillor Name and Responsibility	**Salary, Fees and Allowances**	**Taxable Expenses**	**Non cash Expenses & benefits in kind**	**Total Remuneration 2012-13**	**Total Remuneration 2011-12**
Andrew Drever, Vice-Convener until 3 May 2012 and Convenor from 7 June 2012	£11,093	-	-	£11,093	£5,074
Richard Durham, Convener until 3 May 2012	£1,120	-	-	£1,120	£12,076
Audrey Sinclair, vice convenor from 7 June 2012	£4,135	£622	-	£4,757	*-

*no comparative figure as councillor did not hold a senior post during 2011/12

The Board paid the following salaries, allowances and expenses to all councillors (including the senior councillors above) during the year:

Type of Remuneration	2012-13	2011-12
	£	£
Salaries	16,348	17,250
Expenses	23,451	27,062
Total	36,799	44,312

The Annual Return of Councillors salaries and expenses for 2012-13 is available for any member of the public to view at all public offices and is also available on the Council's website at:
http://www.highland.gov.uk/yourcouncil/yourcouncillors/councillorsconduct/membersexpenses.htm

Pension Benefits

The Board participates in two different fire-fighter pension schemes which provide members with defined benefits related to pay and service.

Pension benefits for acting Chief Fire Officer and Deputy Fire Officer are provided through the Fire-fighters Pension Scheme. This is the scheme that covers the majority of fire-fighters although newer entrants are now members of the New Fire-fighter Pension Scheme.

The Fire-fighters Pension Scheme is a contributory scheme; this means that the employee contributes to the scheme from his or her salary. The members of the old scheme pay 11% (2011/12 11%) of salary and members of the new scheme pay 8.5% (2011/12 8.5%). The scheme's normal retirement age is 55. The accrual rate guarantees a pension based on 1/60th of average pensionable salary and years of pensionable service.

Fire and rescue authority pensions contributions payable are set out in The Firefighters' Pension Scheme Amendment (Scotland) (no.2) Order 2010 (SSI 2010 No. 332.) With effect from 1 April 2010, there has been an employer's contribution to Firefighters Pension Scheme which is currently 21.8%. Under the new arrangements, fire service pension costs are met through a combination of employee contributions, a new actuarially-based employer's contribution calculated as a percentage of pensionable pay and, as required, and a "top-up" payment by the Scottish Government. Both the employee and employer's contribution are paid into a Service Pension Account and the costs of the pensions, when they are taken, are also then paid from this account with the net deficit being reimbursed by the Scottish Government. The fixed employers' contribution reflects scheme costs, and is based on an agreed percentage of pensionable pay set as a result of actuarial advice following regular valuations of the schemes. The rules governing the pension scheme are contained in regulations made by Parliament and are available at www.sppa.gov.uk.

The pension entitlements of the acting Chief Fire Officer, and acting Deputy Fire Officer for the year to 31 March 2013, together with the contribution made by the Board to each senior employee's pension during the year, are shown in the table below:

	In-year pension contributions for year to 31 March 2013	In-year pension contributions for year to 31 March 2012	Accrued Benefit as at 31 March 2013	Accrued Benefit as at 31 March 2012	Difference between Accrued Benefit as at 31 March 2013 and as at 31 March 2012
Trevor Johnson, Acting Chief Fire Officer until 18 January 2013	£20,366	£24,661	£65,464	£62,361	£3,103
Mike Holme, Acting Deputy Chief Fire Officer until 22 November 2012	£13,145	£19,987	£61,852	£61,154	£698
Billy Wilson, Interim Assistant Chief Fire Officer from 23 November 2012	£17,533	*-	£47,482	-*	£47,482

*no comparative figure as employee did not hold a senior post during 2011/12

Pension benefits shown relate to the benefits that the person has accrued as a consequence of their total fire and rescue service, not just their current appointment.

Where fire-fighters are seconded to other Services within Scotland, the Fire Authority for the sending Service retains responsibility for paying employer's contributions in respect of the fire-fighter into its fire pension account and for collecting the fire-fighter's contributions. Therefore Highlands and Islands Fire and Rescue Service paid no employer contributions in respect of Stewart Edgar.

Signed:

Derek Yule
Treasurer
12 June 2013

MOVEMENTS IN RESERVES STATEMENT 2011/12

	General Fund £000	Capital receipts reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2011 brought forward	**1,300**	**107**	**294**	**1,701**	(42,881)	**(41,180)**
Movement in reserves during 2011/12						
Surplus/(deficit) on provision of services (accounting basis)	(2,759)	-	-	**(2,759)**	-	**(2,759)**
Other Comprehensive Expenditure and Income	-	-	-	-	(16,463)	**(16,463)**
Total Comprehensive Expenditure and income	**(2,759)**	-	-	**(2,759)**	(16,463)	**(19,222)**
Adjustments between accounting basis and funding basis under regulations (note 5)	3,015	(107)	(249)	**2,659**	(2,659)	-
Increase/(Decrease) in 2011/12	**256**	**(107)**	**(249)**	**(100)**	(19,122)	**(19,222)**
Balance at 31 March 2012 carried forward	**1,556**	-	**45**	**1,601**	(62,003)	**(60,402)**

MOVEMENTS IN RESERVES STATEMENT 2012/13

	General Fund £000	Capital receipts reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2012 brought forward	**1,556**	**-**	**45**	**1,601**	(62,003)	**(60,402)**
Movement in reserves during 2012/13						
Deficit on provision of services (accounting basis)	(4,468)	-	-	**(4,468)**	115	**(4,353)**
Other Comprehensive Expenditure and Income	-	-	**-**	**-**	(926)	**(926)**
Total Comprehensive Expenditure and income	**(4,468)**	**-**	**-**	**(4,468)**	(811)	**(5,279)**
Adjustments between accounting basis and funding basis under regulations (note 5)	2,912	-	(45)	**2,867**	(2,867)	**-**
Increase/(Decrease) in 2012/13	**(1,556)**	**-**	**(45)**	**(1,601)**	(3,678)	**(5,279)**
Balance at 31 March 2013 carried forward	**-**	**-**	**-**	**-**	(65,681)	**(65,681)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12					2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
25,471	(2,291)	23,180	Firefighting, Rescue and Community Fire Safety		25,435	(3,114)	22,322
1,457	-	1,457	Firefighters Pensions		2,823	-	2,823
45	-	45	Fire Service Emergency Planning and Civil Defence		39	-	39
694	-	694	Corporate and Democratic Core	6	911	-	911
-	-	-	Non Distributed Costs	7	236	-	236
27,667	(2,291)	25,376	**Net Cost of Services**		**29,444**	**(3,114)**	**26,331**
		(19)	Other operating expenditure	8			(17)
		4,609	Financing and investment income and expenditure	9			4,746
		(27,207)	Taxation and non-specific grant income	10			(26,592)
		2,759	**(Surplus)/deficit on provision of services**				**4,468**
		-	Surplus on revaluation of non-current assets	12a			(115)
		161	Impairment of non-current assets charged to Revaluation Reserve	12a			-
		16,155	Actuarial (gains)/losses on pension assets/liabilities	12c			902
		147	Actuarial losses on pension assets/liabilities (injury benefits)	12d			24
		16,463	**Other comprehensive income and expenditure**				**926**
		19,222	**Total comprehensive income and expenditure**				**5,279**

BALANCE SHEET

31/03/12 £000		Note	**31/03/13 £000**
46,280	Property, plant & equipment	24	46,984
115	Intangible Assets	26	60
46,395	**Long term assets**		47,044
255	Inventories	29	225
912	Short term debtors	30	519
4,501	Cash and cash equivalents	16	2,310
112	Assets held for sale	25	81
5,780	**Current assets**		3,135
(873)	Short term borrowing	35	(855)
(3,214)	Short term creditors	31	(3,406)
(1,162)	Provisions	32	-
(5,249)	**Current liabilities**		(4,261)
(9,266)	Long term borrowing	35	(8,411)
(96,453)	Pension Liability	20	(101,526)
(1,609)	Other Retirement Benefit Liabilities	21	(1,662)
(107,328)	**Long term liabilities**		(111,599)
(60,402)	**Total Net liabilities**		(65,681)
1,601	Usable reserves	11	-
(62,003)	Unusable reserves	12	(65,681)
(60,402)	**Total reserves**		(65,681)

The unaudited statement of accounts was issued on 12 June 2013.

Derek Yule B.Com, CPFA, IRRV(Hons)
Treasurer
12 June 2013

CASH FLOW STATEMENT

31/03/12 £000		Note	31/03/13 £000
(2,759)	**Net surplus/(deficit) on the provision of services**		(4,468)
7,051	Adjust net surplus/(deficit) on the provision of services for non-cash movements		6,393
(2,548)	Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities		(2,379)
1,744	Net cash flow from operating activities	13	(454)
(2,721)	Investing activities	14	(3,243)
1,538	Financing activities	15	1,506
561	**Net increase in cash and cash equivalents**		(2,191)
3,940	Cash and cash equivalents at the beginning of the year		4,501
4,501	**Cash and cash equivalents at the end of the year**	16	2,310

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

General principles

The Statement of Accounts summarises the transactions of the Board for the 2012/13 financial year and its position at the year end of 31 March 2013. The Board 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 2012/13 and the Service Accounting Code of Practice 2012/13, 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 Board 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 Board

- Revenue from the provision of services is recognised when the Board 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 Board

- 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 Board) 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.

Cash and cash equivalents

The Highland Council loans fund provides all the day to day banking requirements of the Board. The balance of £2.310m (2011/12 £4.501m) represents the positive balance in Fire Board Funds that temporarily sits with the Highland Council Loans Fund.

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

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

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

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

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
- amortisation of intangible assets attributable to the service

The Board is not required to make requisitions 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 Board. 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 Compensated Absences Adjustment Account in the Movement in Reserves Statement.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Board to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Board is demonstrably committed to either terminating the employment of an officer or group of officers 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 Board to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movements in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements 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.

Post employment benefits

Civilian Staff 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 Board 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 Board are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. 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 4.6% (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 Board 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 Board, 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 Board 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 Highland Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

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

Firefighters' Pension Scheme

Firefighters participate in 2 schemes, the 1992 Firefighters' Pension Scheme (old scheme) and the 2006 Firefighters' Pension Scheme (new scheme). The members of the old scheme pay 11% of salary and members of the new scheme pay 8.5%. The schemes are unfunded which means that no investment assets are built up to fund future liabilities. Instead the net cost of pensions and other benefits (after allowing for contributions from firefighters) is borne by the Board.

Injury Benefit

Tax rules introduced from April 2006 prevent injury awards from being part of the pension scheme regulations where injury awards are payable irrespective of whether an officer is a member of the pension scheme. Injury awards were therefore removed from the fire pension scheme regulations and put on a separate statutory basis. The Firefighters' Compensation Scheme (Scotland) Order 2006 deals with injury awards for firefighters, or as the case maybe their qualifying surviving dependents.

When fire injury benefits formed part of the fire pension schemes, The Local Government Pension Reserve Fund (Scotland) regulations 2003 applied to those costs. These regulations restrict the amount chargeable to the general fund to employer contributions payable (the funded Local Government Pension Scheme) or payments to pensioners in year (the unfunded Fire Officer Schemes). This cost is substantially less than the accounting provision (based on benefit entitlements earned by employees) that is required by applying accounting standards for pensions.

As injury awards no longer form part of the statutory pension scheme the 2003 Regulations no longer apply to these costs, and there is no statutory basis for them to be charged to the Pension Reserve instead of the General Fund.

Whilst the statutory schemes for injury awards as detailed above are not "pension schemes" they can be considered to constitute a "retirement benefit scheme". As such they meet the code definition and should continue to be treated as Defined Benefit Schemes under the requirements of the code for retirement benefits in 2012/13.

The Scottish Government has issued statutory guidance which requires costs in relation to these schemes to be charged to a statutory mitigation account, i.e. Employee Statutory Adjustment Account, rather than the General Fund.

The Scheme is funded on a pay as you go basis, with the Employer paying a fixed contribution and the Government meeting the balance of emerging benefit expenditure (net of employee and employer contributions). There are no assets held to back the liabilities of the scheme

Discretionary Benefits

The Board 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 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 Board’s financial performance.

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Board becomes a party to the contractual provisions of a financial instrument and 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 Board has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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 Board when there is reasonable assurance that:

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

Amounts recognised as due to the Board are not credited to the Comprehensive Income and Expenditure Account until conditions attaching 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.

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.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the moving average costing formula.

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. The Board does not have any finance 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 Board as Lessee

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 Board as Lessor

Operating leases

Where the Board 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 2012/13 (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 Board'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 assets held for sale

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 Cost of Services.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Board as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Board.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Board will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Board's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Board can be determined by reference to an active market. In practice, no intangible asset held by the Board meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or 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.
All fixed assets, which exceed the de minimis level, have been identified, classified and valued. A "de minimis" level of £20,000 has been applied to "Land and Buildings" and "Non Operational Assets" with a £6,000 "de minimis" applying to the "Vehicles, Plant & 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 Board 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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Board.

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

- Assets under construction – valued at historic until transferred to operational assets at which time they are valued by the Director of Housing and Property Services, Highland Council
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- operational specialist properties are valued at depreciated replacement costs to arrive at a net current replacement cost valued by the Director of Housing and Property Services, Highland Council at 1 April 2009

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.

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 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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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

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.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

Depreciation

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

Deprecation is calculated on the following basis:

- operational buildings – straight-line allocation over the useful life of the property as estimated by the valuer. Assets are depreciated in year following acquisition with full year's depreciation charged in year of disposal. Based on a life span of thirty to sixty years as determined by Highland Council Housing and Property Service
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Assets are depreciated in year following acquisition, with full year's depreciation charged in year of disposal. Based on a life span of three to twenty years as determined by a suitably qualified officer

Where an item of Property, Plant and Equipment asset 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.

Componentisation Policy

- Components of an asset will be separated where their value is significant in relation to the total value of the assets 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 lives grouped together
- Where a component is replaced or restored the carrying amount of the old component will be derecognized and the new component added. Where the carrying value of the derecognized/replaced component is not known a best estimate will be determined by reference to the current costs
- Only assets with a gross book value of £0.350m 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 10% in relation to the overall value of the asset 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 componentized
- 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

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Board 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 Board 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 Board 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.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Board settles the obligation.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Board 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 Board. 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 requisitions for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and that do not represent usable resources for the Board – these reserves are explained at note 12.

VAT

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

2. Accounting standards that have been issued but have not yet been adopted

There are none that apply.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Board 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 Board has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Board might be impaired as a result of a need to close facilities and reduce levels of service provision.

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 Board 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 Board's Balance Sheet at 31 March 2013 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 difficult for the Board to sustain its current spending levels 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 asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.010m for every year that the useful lives had to be reduced.
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. A firm of consulting actuaries is engaged to provide the Board with expert advice about the assumptions to be applied.	The effect 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 £2.268m in the pension liability.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Injury Benefits	Estimation of the net liability to pay injury benefits 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 and mortality rates. A firm of consulting actuaries is engaged to provide the Board with expert advice about the assumptions to be applied.	The effect on the net injury benefits 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 £0.024m in the pension liability.

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 Board in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Board to meet future capital and revenue expenditure.

Adjustments in 2011/12

	General Fund £000	Capital Receipts Reserve £000	Capital Grants unapplied £000	**Total Usable Reserves £000**	Total Unusable Reserves £000	**Total Reserves £000**
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	3,342	-	-	**3,342**	(3,342)	**-**
Amortisation of intangible assets	66	-	-	**66**	(66)	**-**
Capital grants and contributions that have been applied to capital financing	(2,548)	-	(249)	**(2,797)**	2,797	**-**
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	(19)	-	-	**(19)**	19	**-**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for financing of capital investment	(1,010)	-	-	**(1,010)**	1,010	**-**

	General Fund £000	Capital Receipts Reserve £000	Capital Grants unapplied £000	**Total Usable Reserves £000**	Total Unusable Reserves £000	**Total Reserves £000**
Capital expenditure charged against the General Fund	(351)	-	-	**(351)**	351	**-**
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	-	34	-	**34**	(34)	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(141)	-	**(141)**	141	**-**
Adjustments involving the Pensions Reserve						
Reversal of items relating to pension benefits debited or credited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement (note 20)	5,979	-	-	**5,979**	(5,979)	**-**
Employers' pension contributions and direct payments to pensioners payable in the year	(2,531)	-	-	**(2,531)**	2,531	**-**
Adjustments involving the Employee Statutory Mitigation Account						
Reversal of items relating to injury benefits debited or credited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement (note 21)	78	-	-	**78**	(78)	**-**
Injury payments to pensioners payable in the year	(57)	-	-	**(57)**	57	**-**
Adjustments involving the Accumulating Compensated Absences Adjustment Account						

	General Fund £000	Capital Receipts Reserve £000	Capital Grants unapplied £000	**Total Usable Reserves £000**	Total Unusable Reserves £000	**Total Reserves £000**
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	66	-	-	**66**	(66)	**-**
Total adjustments in 2011/12	3,015	(107)	(249)	**2,659**	(2,659)	**-**

Adjustments in 2012/13

	General Fund £000	Capital Receipts Reserve £000	Capital Grants unapplied £000	**Total Usable Reserves £000**	Total Unusable Reserves £000	**Total Reserves £000**
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	2,341	-	-	**2,341**	(2,341)	**-**
Amortisation of intangible assets	55	-	-	**55**	(55)	**-**
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(2,379)	-	(45)	**(2,424)**	2,424	**-**
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	(17)	-	-	**(17)**	17	**-**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for financing of capital investment	(873)	-	-	**(873)**	873	**-**
Capital expenditure charged against the General Fund	(474)	-	-	**(474)**	474	**-**
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain on disposal to the Comprehensive Income and Expenditure Statement.	-	80	-	**80**	(80)	**-**

	General Fund £000	Capital Receipts Reserve £000	Capital Grants unapplied £000	**Total Usable Reserves £000**	Total Unusable Reserves £000	**Total Reserves £000**
Use of the capital receipts reserve to finance capital expenditure	-	(80)	-	**(80)**	80	**-**
Adjustments involving the Pensions Reserve						
Reversal of items relating to pension benefits debited or credited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement (note 20)	1,089	-	-	**1,089**	(1,089)	**-**
Employers' pension contributions and direct payments to pensioners payable in the year.	3,082	-	-	**3,082**	(3,082)	**-**
Adjustments involving the Employee Statutory Mitigation Account						
Reversal of items relating to injury benefits debited or credited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement (note 21)	(32)	-	-	**(32)**	32	**-**
Injury payments to pensioners payable in the year	61	-	-	**61**	(61)	**-**
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 accordance with statutory requirements	59	-	-	**59**	(59)	**-**
Total adjustments in 2012/13	2,912	-	(45)	**2,867**	(2,867)	**-**

6. 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 Board.

2011/12 Expenditure £000		2012/13 Expenditure £000
280	Democratic representation and management	333
414	Corporate management	578
694	Total	911

7. Comprehensive Income and Expenditure Statement – Non- distributed costs

Non-distributed costs are excluded from individual services and comprise:

2011/12 £000		2011/12 £000
-	Pension fund past service contributions	66
-	Pension fund losses(gains) on curtailments and settlements	170
-		236

8. Comprehensive Income and Expenditure Statement – Other operating expenditure

2011/12 £000		2012/13 £000
(19)	(Gains)/losses on the disposal of non-current assets	(17)
(19)	Total	(17)

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

2011/12 £000		2012/13 £000
508	Interest payable and similar charges	489
4,060	Pensions interest cost and expected return on pension assets	4,211
78	Pensions interest cost and expected return on injury benefits	73
(37)	Interest and investment income	(27)
4,609		4,746

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

2011/12 £000		2012/13 £000
22,137	Requisitions	21,741
2,548	Capital Grants and contributions	2,379
2,522	Fire Pension Grant	2,278
-	Voluntary Severance Grant	194
27,207		26,592

11. Balance Sheet – usable reserves

Summary 2012/13	General Fund (including earmarked balances) £000	Capital receipts reserve £000	Capital grants unapplied £000	Total £000
Balance at 1 April 2012	1,556	-	45	1,601
Movement in the year	(1,556)	-	(45)	(1,601)
Balance at 31 March 2013	-	-	-	-
Summary 2011/12				
Balance at 1 April 2011	1,300	107	294	1,701
Movement in the year	256	(107)	(249)	(100)
Balance at 31 March 2012	1,556	-	45	1,601

Movements in usable reserves are detailed in the Movement in Reserves Statement on Page 18 and 19 and in notes 5 and 6.

12. Balance Sheet – unusable reserves

31/03/12 £000		31/03/13 £000
6,146	Revaluation reserve (a)	6,185
30,236	Capital adjustment account (b)	31,704
(96,453)	Pensions reserves (c)	(101,526)
(1,609)	Employee Statutory Mitigation Account (d)	(1,662)
(323)	Accumulating compensated absences adjustment account (e)	(382)
(62,003)	**Total unusable reserves**	(65,681)

(a) Revaluation reserve

The Revaluation reserve contains the gains made by the Board 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
- 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.

2011/12 £000		2012/13 £000
6,378	Balance at 1 April	6,146
-	Upward revaluation of assets	115
(161)	Downward revaluation and impairment losses not charged to the surplus/deficit on the provision of services	-
(71)	Difference between fair value depreciation and historical cost depreciation	(76)
6,146	Balance at 31 March	6,185

(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 Statement (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 Board as finance for the costs of acquisition, construction and enhancement.

The account contains 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.

2011/12 £000		2012/13 £000
29,288	Balance at 1 April	30,236
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(3,341)	Charges for depreciation and impairment of non-current assets	(2,341)
(66)	Amortisation of non-current assets	(55)
(15)	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	(56)
71	Adjusting amounts written out of the Revaluation reserve	76
(3,351)	Net written out amount of the cost of non-current assets consumed in the year	(2,376)

2011/12 £000		2012/13 £000
	Capital financing applied in the year	
161	Capital Receipts applied	73
249	Use of the Capital Receipts Reserve to finance new capital expenditure	45
2,528	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,379
1,010	Statutory provision for the financing of capital investment charged against the General Fund	873
351	Capital expenditure charged against the General Fund balances	474
30,236	Balance at 31 March	31,704

(c) 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 Board 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 Board 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 Board has set aside to meet them. The statutory arrangements will ensure that funding will be available by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(76,850)	Balance at 1 April	(96,453)
(16,155)	Actuarial gains/ (losses) on pension assets and liabilities	(902)
(5,979)	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	(7,253)
2,531	Employer's pension contributions and direct payments to pensioners payable in the year	3,082
(96,453)	Balance at 31 March	(101,526)

(d) Employee Statutory Mitigation Account

The Employee Statutory Mitigation Account absorbs the timing differences arising from the different arrangements for accounting for injury benefits following accounting standards and for funding benefits in accordance with statutory provisions. The Board accounts for the full cost of future injury benefits as they are awarded and updates post retirement liabilities accordingly. However, injury benefits are financed on a pay as you go basis and this results in timing differences. The debit balance on the Employee Statutory Mitigation Account shows the difference between the amount of benefit awarded and the amount paid. The statutory arrangements will ensure that funding will be available by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(1,441)	Balance at 1 April	(1,609)
(147)	Actuarial gains (losses) on pension assets and liabilities	(24)
(78)	Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	61
57	Injury payments payable in the year	(90)
(1,609)	Balance at 31 March	(1,662)

(e) Accumulating 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.

2011/12 £000		2012/13 £000
(256)	Balance at 1 April	(323)
256	Settlement or cancellation of accrual made at the end of the preceding year	323
(323)	Amounts accrued at the end of the current year	(382)
(323)	Balance at 31 March	(382)

13. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(37)	Interest received	(27)
508	Interest paid	489

14. Cash flow statement – investing activities

2011/12 £000		2012/13 £000
2,755	Purchase of property, plant and equipment	3,316
(34)	Proceeds from the sale of property, plant and equipment	(73)
2,721	**Net cash flows from investing activities**	3,243

15. Cash Flow Statement - financing activities

2011/12 £000		2012/13 £000
(2,548)	Capital grants and contributions received	(2,379)
1,010	Repayments of amounts borrowed	873
(1,538)	**Net cash flows from financing activities**	(1,506)

16. Cash flow statement – cash and cash equivalents

The balances of cash and cash equivalents comprise:

2011/12 £000		2012/13 £000
4,501	Temporary advances to Highland Council Loans Fund	2,310
4,501	**Total cash and cash equivalents**	2,310

17. 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 Accounting Code of Practice. However, decisions about resource allocation are taken by the Board on the basis of monitoring reports analysed across the various services. The budget performance statement on page 5 provides relevant information. 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

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

2011/12 £000		2012/13 £000
21,881	Net expenditure in the service analysis	23,297
-	Net expenditure of services and support services not included in the analysis	-
5,364	Amounts in the Comprehensive Income and Expenditure Statement relating to amounts not reported to management in the analysis	4,870
(1,869)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(1,836)
25,376	**Cost of services in Comprehensive Income and Expenditure Statement**	26,331

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

2012/13	Service analysis	Amounts not reported to Management	Amounts not included in the Comprehensive Income and Expenditure Statement	Cost of services	Corporate amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(3,114)	-	-	(3,114)	-	(3,114)
Interest and investment income	(27)	27	-	-	(27)	(27)
Income from requisitions	-	-	-	-	(21,741)	(21,741)
Government grants and contributions	(2,472)	2,472	-	-	(4,851)	(4,851)
Total Income	(5,613)	2,499	-	(3,114)	(26,619)	(29,733)
Employee expenses	22,315	(25)	-	22,290	4,284	26,574
Other service expenses	6,595	-	(1,836)	4,759	489	5,248
Depreciation, amortisation and impairment	-	2,396	-	2,396	-	2,396
Gain or loss on disposal of non-current assets	-	-	-	-	(17)	(17)
Total expenditure	28,910	2,371	(1,836)	29,445	4,756	34,201
(Surplus) or deficit on the provision of services	23,297	4,870	(1,836)	26,331	(21,863)	4,468

2011/12 comparative figures	Service analysis	Amounts not reported to Management	Amounts not included in the Comprehensive Income and Expenditure Statement	Cost of services	Corporate amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(2,291)	-	-	(2,291)	-	(2,291)
Interest and investment income	(37)	37	-	-	(37)	(37)
Income from requisitions	-	-	-	-	(22,137)	(22,137)
Government grants and contributions	(2,522)	2,522	-	-	(5,070)	(5,070)
Total Income	(4,850)	2,559	-	(2,291)	(27,244)	(29,535)
Employee expenses	20,693	(602)	-	20,091	4,138	24,229
Other service expenses	6,038	-	(1,869)	4,169	508	4,677
Depreciation, amortisation and impairment	-	3,407	-	3,407	-	3,407
Gain or Loss on Disposal of Non-current assets	-	-	-	-	(19)	(19)
Total expenditure	26,731	2,805	(1,869)	27,667	4,627	32,294
(Surplus) or deficit on the provision of services	21,881	5,364	(1,869)	25,376	(22,617)	2,759

* These amounts are included in the Service Analysis but are presented as corporate amounts in the Comprehensive Income and Expenditure Statement.

18. Members allowances and expenses

The Board paid the following amounts to members of the Board during the year:

2011/12 £		2012/13 £
17,250	Allowances	16,348
27,809	Travel and Subsistence	23,451
45,059	**Total**	39,799

19. External audit costs

The Board has incurred the following external audit costs:

2011/12 £		2012/13 £
16,260	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	15,500

20. Defined benefit pension schemes

Participation in pension schemes

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

The Board participates in four post employment schemes:

- 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 Board employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- The Firefighters' Pension Scheme comprises of 2 schemes, the 1992 Firefighters' Scheme and the 2006 Firefighters' scheme. The schemes are unfunded which means that no investment assets are built up to fund future liabilities. Instead the net cost of pensions and other benefits (after allowing for contributions from firefighters) is borne by the Board. In order to assess the value of the employer's liabilities in relation to the scheme at 31 March 2013, the actuaries have undertaken pension expense calculations in respect of pensions benefits provided.

- Injury benefits. Injury awards are payable irrespective of whether an officer is a member of the pension scheme. Injury awards were therefore removed from the fire pension scheme regulations and put on a separate statutory basis. The Firefighters' Compensation Scheme (Scotland) Order 2006 deals with injury awards for firefighters, or as the case may be their qualifying surviving dependents. The Scheme is funded on a pay as you go basis, with the employer paying a fixed contribution and the Government meeting the balance of emerging benefit expenditure (net of employee and employer contributions). There are no assets held to back the liabilities of the scheme.

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 Board 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 requisitions 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.

2011/12		2012/13	2012/13	2012/13
		Support Staff	Uniformed Staff	Total
£000		£000	£000	£000
	Comprehensive Income and Expenditure Statement			
	Cost of services			
1,919	Current service cost	584	2,228	2,812
	Past service cost	(66)	-	(66)
1,919		518	2,228	2,746
	Financing and investment income and expenditure			
4,775	Interest cost	683	4,159	4,842
(715)	Expected return on scheme assets	(631)	-	(631)
4,060		52	4,159	4,211
5,979	**Total post employment benefits charged to the surplus or deficit on the provision of services**	570	6,387	6,957
16,155	Actuarial losses/(gains)	(136)	1,038	902
22,134	**Total post employment benefits charged to the Comprehensive Income and Expenditure Statement**	434	7,425	7,859
	Movement in reserves statement			
(5,979)	Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	(570)	(6,387)	(6,957)
	Actual amount charged against the General Fund balance for pensions in the year			
2,531	Employers contributions payable to the scheme and retirements benefits payable to pensioners	394	840	1,234

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for period 1 April 2005 to 31 March 2013 is a loss of £13.487m.

Assets and liabilities in relation to post employment benefits

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

31/03/12 £000		Firefighters Pension Scheme £000	LGPS £000	31/03/13 Total £000
86,176	Opening value	91,754	14,833	106,587
1,919	Current service cost	2,228	584	2,812
4,775	Interest cost	4,159	683	4,842
16,073	Actuarial loss/(gain)	1,038	578	1,616
(3,236)	Estimated benefits paid (net of transfers in)	(3,534)	(89)	(3,623)
886	Contributions by scheme participants	840	138	978
(6)	Unfunded pension payments	-	(6)	(6)
-	Past service cost	-	66	66
-	Losses on curtailments	-	170	170
106,587	Closing value	96,485	16,957	113,442

Reconciliation of fair value of the scheme assets

31/03/12 £000		Firefighters Pension Scheme £000	LGPS £000	31/03/13 Total £000
9,326	Opening value	-	10,134	10,134
715	Expected return on Scheme assets	-	631	631
(82)	Actuarial (loss)/gain	-	714	714
(360)	Estimated benefits paid (net of transfers in)	-	(95)	(95)
138	Contributions by Scheme participants	-	138	138
397	Contributions by employer	-	394	394
10,134	Closing value	-	11,916	11,916

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 £1.346m (2011/12 £0.204m)

Scheme history

Year ended	31/03/13	31/03/12	31/03/11	31/03/10	31/03/09
	£000	£000	£000	£000	£000
Present value of liabilities	(113,442)	(106,587)	(86,176)	(106,288)	(66,807)
Fair value of assets	11,916	10,134	9,326	8,413	6,084
Deficit	(101,526)	(96,453)	(76,850)	(97,875)	(60,723)

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

The liabilities show the underlying commitments that the Board has in the long run to pay post employment (retirement) benefits. The total liability of £101.526m has a substantial impact on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £65.681m. However, statutory arrangements for funding the deficit mean that the financial position of the Board remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

Total estimated contributions of £0.387m are expected to be paid into the scheme in the financial year ending 31 March 2014.

From 2010/11 new arrangements for fire fighter pensions have come into effect, whereby there is now in addition to the employee contributions of 11% for the old scheme and 8.5% for the new scheme, an actuarially based employers contribution calculated as a percentage of pensionable pay of 21.8% for the old scheme and 11.5% for the new scheme funded by the Scottish Government. In addition a top up payment from the Scottish Government is paid if required. Total estimated contributions of £1.361m are expected to be paid into the scheme in the year ended 31 March 2014. In addition government grant of £1.334m is expected to be paid into the scheme.

The total contributions made to the 2 Firefighters pension Scheme by the Scottish Government in the year to 31 March 2013 is £2.694m.

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 31 March 2012.

The uniformed officers' pension schemes are based on the latest valuation of the scheme for IAS 19 purposes as at 31 March 2013.

The principal actuarial assumptions adopted as at 31 March 2013 are as follows:

Long term expected rate of return on assets in the Local Government Pension Scheme

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

Therefore we are not required to disclose an expected return assumption for the year to 31 March 2014.

For the year to 31 March 2013, the expected return was 6.1% per annum, which has been used to determine the profit and loss charge for the year ended 31 March 2013.

2011/12		2012/13
	Fire Board Support Staff	
	Longevity at age 65 for current pensioners	
21.3	Men	21.3
23.5	Women	23.6
	Longevity at age 65 for future pensioners	
22.6	Men	22.6
25.1	Women	25.1
	Firefighters 1992 and 2006 Schemes	
	Longevity at age 65 for current pensioners	
21.5	Men	21.6
24.1	Women	24.2
	Longevity at age 65 for future pensioners	
23.4	Men	23.5
25.9	Women	26.0

Financial assumptions

	Fire Board Support Staff	
3.3%	RPI Increases	3.4%
2.5%	CPI Increases	2.6%
4.8%	Rate of increase in salaries	4.8%
2.5%	Rate of increase in pensions	2.6%
4.6%	Rate for discounting scheme liabilities	4.5%
50.0%	Take up of option to convert annual pension into retirement lump sum	50%
	Firefighters 1992 and 2006 Schemes	
3.3%	RPI increases	3.4%
2.5%	CPI increases	2.6%
4.8%	Rate of increase in salaries	4.8%
2.5%	Rate of increase in pensions	2.6%
4.6%	Rate for discounting scheme liabilities	4.6%
50.0%	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

2011/12		2012/13
76%	Equities	77%
7%	Gilts	7%
7%	Bonds	7%
9%	Property	8%
1%	Cash	1%
100%	Total	100%

History of experience gains and losses

The actuarial losses identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

Support Staff LGPS	**2012/13**	**2011/12**	**2010/11**	**2009/10**	**2008/09**
	%	**%**	**%**	**%**	**%**
Experience adjustments on scheme liabilities	(0.5)	(8.0)	0.1	1.1	1.5
Experience adjustments on scheme assets	(6.0)	(0.8)	0.8	24.5	(28.3)

Firefighters' Scheme	**2012/13**	**2011/12**	**2010/11**	**2009/10**	**2008/09**
	%	**%**	**%**	**%**	**%**
Experience adjustments on scheme liabilities		-	17.4	-	-
Experience adjustments on scheme assets		-	-	-	-

21. Injury Benefit

Assets and liabilities in relation Injury benefits

2011/12 £000		2012/13 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services	
	Current service cost	17
-	Past service cost	-
	Financing and investment income and expenditure	
78	Interest cost	73
78	**Total post employment benefits charged to the surplus or deficit on the provision of services**	90
147	Actuarial losses/(gains)	24
225	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	114
	Movement in reserves statement	
(78)	Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(90)
	Actual amount charged against the General Fund balance for pensions in the year	
57	Employers contributions payable to the scheme	61

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for period 1 April 2005 to 31 March 2013 is a loss of £24m.

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

31/03/12 £000		31/03/13 £000
1,441	Opening value	1,609
-	Current service cost	17
78	Interest cost	73
147	Actuarial loss/(gain)	24
-	Estimated benefits paid (net of transfers in)	-
-	Past Service Cost	-
(57)	Injury pension payments	(61)
1,609	Closing value	1,662

Scheme history

Year ended	31/03/13	31/03/12	31/03/11	31/03/10	31/03/09
	£000	£000	£000	£000	£000
Present value of liabilities	(1,662)	(1,609)	(1,441)	(1,209)	(1,012)
Fair value of assets	-	-	-	-	-
Deficit	(1,662)	(1,609)	(1,441)	(1,209)	(1,012)

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

The liabilities show the underlying commitments that the Board has in the long run to pay post employment (retirement) benefits. The total liability of £1.662m has an impact on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £65.681m. However, statutory arrangements for funding the deficit mean that the financial position of the Board remains healthy. The deficit on the injury benefit scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary

History of experience gains and losses

The actuarial gains identified as movements on the Employee Statutory Mitigation Account in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

Injury Benefit

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	**%**	**%**	**%**	**%**
Experience adjustments on scheme liabilities	-	-	35.7	-	-
Experience adjustments on scheme assets	-	-	-	-	-

22. Related parties

The Board is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Board or to be controlled or influenced by the Board. Disclosure of these transactions allows readers to assess the extent to which the Board 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 Board.

The Highland Council

The Highland Council provided £15.614m representing 71.82% of the funding of the Board and holds 16 of the 24 seats on the Board. In addition the Highland Council provides administrative, financial, computing and property services. The Board pays £0.191m in respect of these functions; this cost includes the charges for the statutory functions provided by the Clerk and Treasurer.

Comhairle Nan Eilean Siar

The Comhairle Nan Eilean Siar provided £2.261m representing 10.40% of the funding of the Board and holds 4 of the 24 seats on the Board.

Orkney Islands Council

The Orkney Islands Council provided £1.675m representing 7.70% of the funding of the Board and holds 2 of the 24 seats on the Board.

Shetland Islands Council

The Shetland Islands Council provided £2.191m representing 10.08% of the funding of the Board and holds 2 of the 24 seats on the Board.

The Scottish Government

The Scottish Government provided £2.379m of capital grant which is used to fund the purchase of the Board's Non-current assets; this funded 80% of the Boards capital expenditure in the year 2012/13.The Scottish Government also provided funding of £2.278m for the Fire Fighters Pension Schemes, and a further £0.194m for the Voluntary Severance Scheme.

Pension Schemes

The employees of the Board are eligible to join either the Local Government Pension Scheme or the Firefighters Pension Schemes, all of which are locally administered by the Highland Council.

23. Operating Leases

Board as Lessee

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

31/03/12 £000		31/03/13 £000
323	Not later than one year	318
721	Later than one year and not later than five years	342
898	Later than five years	876
1,942		1,536

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

31/03/12 £000		31/03/13 £000
440	Minimum lease payments	353
-	Contingent rents	-
440		353

24. Property, plant and equipment

Movements in 2012/13

	Other land and buildings	Vehicles, plant and equipment	Assets under construction	Total Property, plant and equipment
	£000	£000	£000	£000
Cost or valuation				
As at 1 April 2012	38,256	24,801	1,925	64,982
Additions	879	565	1,527	2,971
Revaluation increases/(decreases) recognised in the Revaluation Reserve				
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	115	-	-	115
Derecognition - disposals	-	(26)	-	(26)
Write off	(16)	-	-	(16)
Assets reclassified (to)/from Assets Held for Sale	-	-	-	-
Other movements in cost or Valuation	531	882	(1,413)	-
Revaluations				
At 31 March 2013	**39,765**	**26,222**	**2,039**	**68,026**
Accumulated depreciation and impairment				
As at 1 April 2012	2,269	16,433	-	18,702
Depreciation charge	557	1,318	-	1,875
Impairments	386	11	68	465
Derecognition - disposals	-	-	-	-
Eliminated on reclassification to Assets Held for Sale	-	-	-	-
At 31 March 2013	**3,212**	**17,762**	**68**	**21,042**
Net book value				
At 31 March 2013	**36,553**	**8,460**	**1,971**	**46,984**
At 1 April 2012	35,987	8,368	1,925	46,280

Comparative movements in 2011/12

Movements in 2011/12

	Other land and buildings	Vehicles, plant and equipment	Assets under construction	Total Property, plant and equipment
	£000	£000	£000	£000
Cost or valuation				
As at 1 April 2011	38,212	24,059	1,230	63,501
Additions	348	824	2,117	3,289
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(422)	-	-	(422)
Derecognition - disposals	-	(168)	-	(168)
Assets reclassified (to)/from Assets Held for Sale	(1,218)	-	-	(1,218)
Other movements in cost or Valuation	1,336	86	(1,422)	-
Revaluations				
At 31 March 2012	**38,256**	**24,801**	**1,925**	**64,982**
Accumulated depreciation and impairment				
As at 1 April 2011	1,688	15,230	-	16,918
Depreciation charge	612	1,356	-	1,968
Derecognition - disposals	-	(153)	-	(153)
Eliminated on reclassification to Assets Held for Sale	(31)	-	-	(31)
At 31 March 2012	**2,269**	**16,433**	**-**	**18,702**
Net book value				
At 31 March 2012	**35,987**	**8,368**	**1,925**	**46,280**
At 1 April 2011	36,524	8,829	1,230	46,583

25. Assets Held for Sale

2011/12 £000		2012/13 £000
36	Balance at 1 April 2011	112
1,187	Assets newly classified as held for sale	-
(1,111)	Impairment losses	(31)
112	Balance at 31 March 2013	81

26. Intangible Assets

The Board accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased Licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Board. The useful lives assigned to the major software suites used by the Board are:

There are no internally generated assets

Other assets have a useful life of 5 years

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £ m charged to revenue in 2012/13 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

2011/12 £000		2012/13 £000
	Gross book value	
307	At 1 April 2012	307
-	Additions	-
307	At 31 March 2013	307
	Accumulated amortisation	
(126)	At 1 April 2012	(192)
(66)	Charge for the year	(55)
(192)	At 31 March 2013	(247)
	Net book value	
115	At 31 March 2013	60
181	At 1 April 2012	115

There are three items of capitalised software that are individually material to the financial statements:

	Carrying Amount		
	31 March 2013 £000	31 March 2012 £000	Remaining Amortisation Period
Office Professional Plus 2007	-	12	0 Years
Vector Project Virtual Training System	12	26	1 Years
Maintenance of operational data access system	41	62	2 Years

27. Capital commitments

At 31 March 2013 there are a number of committed contracts for the construction of plant and equipment in 2013/14 to the value of £0.019m. Similar commitments at 31 March 2012 were £0.294m.

28. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below 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 Board, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Board that has yet to be financed. The CFR is analysed in the second part of this note.

2011/12 £000		2012/13 £000
11,149	Opening Capital Financing Requirement	10,139
	Capital investment	
3,289	Property, plant and equipment	2,971
-	Investment properties	
	Sources of finance	
(141)	Capital receipts	(73)
(2,797)	Government grants and other contributions	(2,424)
	Sums set aside from revenue	
(351)	- direct revenue contributions	(474)
(1,010)	- loans fund principal	(873)
10,139	Closing Capital Financing Requirement	9,266
	Explanation of movements in the year	
(1,010)	Repayment of Loans Fund Principal	(873)
(1,010)	Decrease in Capital Financing Requirement	(873)

29. Inventories

Consumables stores (stock)

2011/12 £000		2012/13 £000
268	Balance at 1 April 2012	255
1,678	Purchases	2,178
(1,694)	Recognised as an expense in the year	(2,227)
3	Written on balances	19
255	Balance at 31 March 2013	225

30. Debtors

31/03/12 £000		2012/13 £000
45	Central government bodies	285
679	Other local authorities	41
188	Other entities and individuals	193
912		519

The Board does not generally have negotiable credit terms for customers as any overdue amount is payable immediately. Sundry debtors (included in "other entities and individuals") can be analysed by age as follows:

	Sundry Debtors £000
Less than three months	52
Three to six months	-
Six to twelve months	-
More than twelve months	5
Impairment of debtors	-
Total debtors	57

31. Creditors

31/03/12 £000		2012/13 £000
711	Central government bodies	387
251	Other local authorities	127
5	NHS bodies	5
12	Public corporations	-
2,235	Other entities and individuals	2,887
3,214	Total	3,406

32. Provisions

	31/03/12	Movement	31/03/2013
	£000	£000	£000
Provisions			
Retained Personnel – backdated pay under Equal Treatment Part-Time Workers regulations	890	(890)	-
Retained Personnel – National Insurance and Tax arising from Legal Settlement Payments	212	(212)	-
Employers NIC liability on benefits	60	(60)	-
Total provisions	**1,162**	**(1,162)**	**-**

Terms & Conditions changed with effect June 2010 under the Equal Treatment Part-Time Workers Regulations and this was notified to the Service in April 2011. However, due to the requirement to negotiate with unions on local arrangements and to update other policies and procedures, the implementation of the conditions have been delayed along with the calculation of back dated pay. All resulting HMRC related liabilities were settled during 2012/13.

33. Firefighters' Pension Account

As from 1 April 2010, the Scottish Government has introduced a requirement for each Scottish fire and rescue service to maintain a Firefighters' Pension Account in respect of its pension schemes. The requirement is specified in the Firefighters' Pension Scheme Amendment (Scotland) (No2) Order 2010 (SSI 332/2010 and also SSI 333/2010). The regulations specify that a Firefighters' Pension Account must be maintained to record the payments made and income received in respect of firefighters' pensions.

The Scottish Government now specifically differentiates between funding for "core" fire and rescue activities and funding for firefighters' pensions. For the fire board, however, all Scottish Government funding is credited to the fire board General Fund. The regulations refer to the core (non pension) fire and rescue activities as the Firefighters Operating Account. Ultimately it remains the responsibility of the fire and rescue service to support its pension obligations from the funding it receives.

Where a refund of contributions has been made to an employee, a refund is also due to the Fire Operating Account. Such refunds are shown under Contributions receivable – Other.

2011/12		2012/13 £000	2012/13 £000
	Contributions receivable:		
	Highland and Islands Fire Board: **:**		
(1,325)	Contributions Based on Pensionable pay	(1,381)	
-	Early retirements	-	
-	Other	(384)	
(748)	Officers Contributions	(873)	
(2,073)			(2,638)
(441)	Transfers in from other fire and rescue services		(367)
	Benefits payable:		
2,256	Pensions	2,458	
1,068	Commutations and lump sum retirement benefits	1,234	
-	Lump sum death benefits	12	
3,324			3,704
	Payments to and on account of leavers:		
-	Transfer values paid	197	
-	Refunds of contributions to employees	-	
-			197
810	**Sub-total for the year before transfer from the Fire Operating Account of an amount equal to the deficit**		896
(810)	**Additional funding payable by the Firefighters Operating Account to meet the Deficit**		(896)
-	**Net Amount payable/ receivable for the year**		-

34. Contingent liabilities

A contingent liability is a possible obligation which may require a payment or transfer of economic benefits.

The board is required to implement a single status scheme in respect of the employment conditions for civilian staff. This will be addressed as part of the Police and Fire Reform.

The Board is required to bear decommissioning costs in relation to communications masts. The extent of this liability cannot be ascertained at present.

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

35. Borrowing

The Board has access to the Highland Council's Loans Fund. As a result there is no significant risk that the Board will be unable to raise finance to meet its commitments under financial instruments. The Board 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 borrowings disclosed in the Balance Sheet are made up of the following categories of financial instruments:

As at 31 March 2012				As at 31 March 2013		
Long term	Current	Total		Long term	Current	Total
£000	£000	£000		£000	£000	£000
			Borrowings			
9,266	873	10,139	Financial liabilities at amortised cost	8,411	854	9,265
9,266	873	10,139	Total	8,411	854	9,265

The maturity structure of the borrowing is as follows:

31/03/12 £000	Loans outstanding	**31/03/13 £000**
10,139	Highland Council Loans Fund	9,265
873	Less than 1 year	855
845	Between 1 and 2 years	559
1,498	Between 2 and 5 years	1,431
2,317	Between 5 and 10 years	2,209
4,606	More than 10 years	4,211
10,139	Total	**9,265**

36. Events after the Balance Sheet date

The Statement of the Accounts was authorised for issue by the Treasurer on 11 June 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Police and Fire Reform (Scotland) Act 2012 received Royal Assent on 7 August 2012. Responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies on 1 April 2013. In 2013/14 HIFRS and HIFB will cease to exist as a corporate body and the Board will no longer be responsible for service provision.