



The Highland Council
Statement of Accounts

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(Unaudited)

2012 - 2013

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EXPLANATORY FOREWORD BY DIRECTOR OF FINANCE

1. Statement of Accounts (the Accounts)

The Statement of Accounts presents the financial position and performance of The Highland Council and its group for the year ended 31 March 2013 which have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (The Code) and the Service Reporting Code of Practice (SerCOP)

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

The Accounts comprise the following financial statements:

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

Accounting Policies and Notes to the Accounts

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

Housing Revenue Account (HRA)

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

Council Tax Income Account

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

Non-Domestic Rate Account

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

3. Financial performance

3.1 Balances

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

	Balance at 1/04/12 £m	Use of earmarked balances £m	Increase in earmarking £m	Interest on balances £m	Balance at 31/03/13 £m
Non-earmarked balances	23.458	3.226	(10.062)	(0.030)	16.592
Surplus for the year					<u>1.575</u>
					18.167
Earmarked balances					
Devolved School Management	2.770	(0.505)	-	-	2.265
Spend to Save Fund	0.860	(0.168)	-	0.004	0.696
IT Investment Funds	1.457	(0.274)	0.300	0.008	1.491
Central Energy Efficiency Fund	0.747	-	-	0.005	0.752
Building Maintenance Costing Project	0.537	(0.539)	-	0.002	-
Caithness Heat and Power	0.648	(0.246)	-	0.003	0.405
Learning and Teaching	0.692	(0.692)	0.277	0.003	0.280
Future Change Implementation	1.083	(0.802)	-	0.004	0.285
Inverness Royal Academy Extension	0.150	-	-	0.001	0.151
Grants and Match Funding	-	-	0.185	-	0.185
Business Rates Incentivisation Scheme	-	-	1.300	-	1.300
Community Challenge fund	-	-	1.000	-	1.000
Road Maintenance 2013/14	-	-	2.000	-	2.000
Strategic Change and Development fund	-	-	5.000	-	5.000
Total earmarked balances	<u>8.944</u>	<u>(3.226)</u>	<u>10.062</u>	<u>0.030</u>	<u>15.810</u>
Total General Fund	<u>32.402</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33.977</u>

	Balance at 1/4/12 £m	Deficit £m	Transfer from capital fund £m	Balance at 31/3/13 £m
Housing Revenue Account	<u>6.804</u>	<u>(1.350)</u>	<u>1.350</u>	<u>6.804</u>

In accordance with CIPFA guidance "Reserves and Balances in a Local Authority" the Council has determined that General Fund balances should be retained for contingencies and for specific initiatives. The Council keeps its level of balances under review and aims to keep a sum of up to 3% of the revenue budget, approximately £16.9m, to be held as a contingency in non-earmarked balances. Any balance in excess of this provides additional flexibility until utilised or otherwise earmarked by the Council.

3.2 General Fund Services

The financial results for the General Fund services for the year are shown below. This presentation differs from that shown in the Comprehensive Income and Expenditure Statement which is set out in accordance with the standard classification of services set out in the Service Reporting Code of Practice (SerCOP) and allows comparison to be made with other Scottish Local Authorities. The following presentation allows comparison of the 2012/13 results against budget, on the basis of the internal service analysis of the Council.

	Notes	Budget £m	Actual £m	Over/ (Under) £m
Education, Culture and Sport		235.657	235.655	(0.002)
Housing (non HRA), Property and Architectural Services		11.365	11.341	(0.024)
Building Maintenance	1	(0.098)	0.080	0.178
Planning and Development		7.826	7.780	(0.046)
Health and Social Care	2	134.061	134.927	0.866
Transport, Environment and Community	3	60.682	64.788	4.106
Chief Executive's Office		24.364	24.324	(0.040)
Finance Services		12.034	12.027	(0.007)
Housing Benefits	4	0.371	0.167	(0.204)
		486.262	491.089	4.827
Joint Board Requisitions	5			
Northern Joint Police Board		19.990	19.560	(0.430)
Highland and Islands Fire Board		15.647	15.614	(0.033)
Highland and Western Isles Valuation Joint Board		2.380	2.379	(0.001)
Highland and Islands Transport Partnership		0.089	0.089	-
Non-Domestic Rate Relief		0.606	0.687	0.081
Loan Charges	6	55.510	52.099	(3.411)
Interest on Revenue Balances		(0.180)	(0.259)	(0.079)
Interest and Investment Income		-	(0.005)	(0.005)
Total General Fund Services		580.304	581.253	0.949
Appropriations to/from Reserves				
Repairs and Renewals Fund		-	0.002	0.002
Insurance Fund		0.147	0.168	0.021
Capital Fund		(0.098)	(0.062)	0.036
Affordable Housing		2.600	2.842	0.242
Caithness Heat and Power Ltd	7	0.031	(2.803)	(2.834)
Amount to be funded from Taxpayers/ General Fund Balance		582.984	581.400	(1.584)

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	Notes	Budget	Actual	Over/ (Under)
		£m	£m	£m
Revenue Support Grant		(364.996)	(364.996)	-
Non-domestic Rates		(106.091)	(107.404)	(1.313)
Council Tax		(109.749)	(110.716)	(0.967)
		2.148	(1.716)	(3.864)
Unallocated pressures/growth		(0.606)	-	0.606
Supplementary estimates		(1.771)	-	1.771
Job evaluation		-	0.141	0.141
Contingencies		5.243	-	(5.243)
Community Challenge Fund		(1.000)	-	1.000
Business Rates Incentivisation Scheme		(1.300)	-	1.300
Road Maintenance 2013/14		(2.000)	-	2.000
Strategic Change and Development Fund		(5.000)	-	5.000
Surplus on unearmarked General Fund balance		(4.286)	(1.575)	2.711
Transfer from unearmarked General Fund balance		(2.550)	-	2.550
Transfer from earmarked balances	8	(3.226)	-	3.226
Transfer to earmarked balances	9	10.062	-	(10.062)
Surplus on earmarked General Fund balance		4.286	-	(4.286)
Total General Fund surplus		-	(1.575)	(1.575)

The General Fund outturn was a surplus of £1.575m for the year, although after the application of earmarked balances to the general fund, the non-earmarked balance has reduced by £5.291m. Through proactive management of balances, the Council has been able to meet all its financial objectives which is a significant achievement in light of pressures created by severe weather events. The main variations from budget during the year were as follows:

- 1 Building Maintenance fee income was less than expected in the year leading to a year end overspend of £0.178m
- 2 The Health and Social Care budget is overspent by £0.866m due to pressures arising from children's placements in residential care and foster care, offset by underspends from limiting discretionary spend and tightly controlling the management of staff turnover.
- 3 The Transport, Environment and Community budget is overspent by £4.106m. The main factors contributing to this were overspends on winter and cyclical maintenance, lighting services, subsidies and concessionary fares, coast protections following the storm surge in December as well as reduction in the margin achieved on marine fuel sales. Underspends across some budget lines provided some mitigation for the overall overspend.
- 4 The Housing Benefit budget for the year is £0.204m under budget which is the result of additional subsidy received for homeless accommodation.
- 5 The Council's position for the share of costs of the Highland and Islands Fire Board and the Northern Joint Police Board is shown net of the final share of funds from those bodies. The share of funds of the previous boards is based on unaudited figures and is subject to adjustment during the audit period.

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

- 6 The underspend of £3.411m in loan charges is due to low rates continuing to be available on temporary borrowing and cash balances being maintained at a level such that the need to borrow externally during the year was limited
- 7 During the year a provision of £2.803m for possible repayment of grant in respect of the Caithness Heat and Power project was written back as it is no longer required
- 8 During the year £3.226m was added to service budgets from earmarked balances as follows:

	£m
Future Change Implementation	0.801
Learning and Teaching	0.692
Building Maintenance Costing Project	0.539
Devolved School Management	0.505
IT Investment Funds	0.274
Caithness Heat and Power	0.246
Spend to Save Fund	0.169
	<u>3.226</u>

- 9 During the year £10.062m was added into earmarked balances in order to make funding available in future years as follows:

	£m
Strategic Change and Development Fund	5.000
Road Maintenance 2013/14	2.000
Business Rates Incentivisation Scheme	1.300
Community Challenge Fund	1.000
IT Investment Funds	0.300
Learning and Teaching	0.277
Grants and Match Funding	0.185
	<u>10.062</u>

3.3 Housing Revenue Account (HRA)

The financial results for the Housing Revenue Account are shown below. This presentation differs from that shown in the Housing Revenue Account Income and Expenditure Statement which is set out in accordance with the SerCOP and allows comparison to be made with other Scottish Local Authorities. The following allows comparison of the 2012/13 results against budget.

	Note	Budget	Actual	Over/ (Under)
		£m	£m	£m
Staff costs		5.376	5.336	(0.040)
Other costs	1	24.627	26.246	1.619
Loan charges and interest	2	14.820	13.797	(1.023)
		<u>44.823</u>	<u>45.379</u>	0.556
Income to HRA		<u>(44.823)</u>	<u>(45.379)</u>	<u>(0.556)</u>
Total		<u>-</u>	<u>-</u>	<u>-</u>

Notes

- 1 Due to the underspend on loan charges and interest the amount available to fund capital projects from current revenue was greater than budget
- 2 Loan charges and interest rates were under budget due to favourable interest rates throughout the year

3.4 Group Financial Results

The financial results for the Group are summarised below:

2011/12 £m		2012/13 £m
176.974	Total comprehensive Income and Expenditure	26.370
83.587	Balances – usable reserves	86.447
624.836	Balances – unusable reserves	595.606

3.5 Capital Programme

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

	Notes	Net expenditure		Over/ (under) £m
		Budget £m	Actual £m	
General Fund				
Education, Culture and Sport	1	29.639	24.768	(4.871)
Housing (non HRA)	2	8.060	8.184	0.124
Planning and Development	3	0.915	0.176	(0.739)
Transport, Environmental and Community	4	19.131	26.230	7.099
Social Work	5	3.749	2.579	(1.170)
Strategic Property Management	6	5.954	7.044	1.090
Accommodation Rationalisation	7	2.202	0.620	(1.582)
Energy Management	8	3.264	3.623	0.359
Chief Executives Service	9	5.885	2.843	(3.042)
Discretionary Fund	10	1.409	-	(1.409)
Total		80.208	76.067	(4.141)
Housing HRA	11	27.506	32.901	5.395

Notes

- 1 The near final position on the Education Culture and Sport programme is an under spend of £4.781m. The main projects contributing to the under spend are delays with: Fort William schools project land purchase (£0.715m); Am Fasgadh Highland Folk Museum (£1.061m); Inverness Royal Academy redevelopment (£0.819m); Wick High School (£0.846m); and the replacement accommodation at Raigmore Primary (£1.072m).
- 2 The non HRA capital programme has a year end over spend of £0.124m due to increased payments from the Private Sector Housing Grant budget.
- 3 The Planning and Development programme is under spent by £0.739m at the year end. Due to slippage on various projects.

- 4 In Transport Environmental and Community Services there is an over spend of £7.099m. The main factors contributing to this position are as follows: the South West Relief Inverness Flood Prevention project (£1.503m); River Ness Flood Prevention - Tidal Section (£1.243m) work on Sconser Ferry Terminal (£0.111m); Bridges programme (£1.343m); Conon Railway Station Re-Opening (£0.253m); and the cost of the emergency works to the rock face at Stromeferry (£1.262m).
- 5 The Health and Social Care capital budget has been under spent by £1.170m, which is mainly due to delays on the Invernevis House project (£0.797m); on the Ach an Eas project (£0.265m) and slippage on the Children's Residential Unit in Wick (£0.098m).
- 6 The Strategic Property Management budget has a year end over spend of £1.090m which has arisen mainly from an over spend of £1.350m on works in Council buildings relating to health and safety being brought forward, partly off-set by an under spend in the disability discrimination works budget following delays to the Wick Town Hall project of £0.260m.
- 7 The Accommodation Rationalisation budget has under spent by £1.582m mainly due to delays in starting the Wick Office project.
- 8 The Energy Management budget position at the year end is an over spend of £0.359m following additional spend across a number of projects.
- 9 An under spend of £3.042m on the Chief Executive's programme is largely due to delays in the telephony aspect of the ICT contract which has caused slippage in the year of £1.194m; also slippage on the Kingussie office rationalisation project has led to a £1.801m under spend.
- 10 The Discretionary Fund has an under spend of £1.409m. Four projects to the value of £0.476m have been committed against this budget in future years.
- 11 The gross expenditure for HRA was £32.901m. The over spend of £5.395m was funded as follows:

	£m
Unbudgeted income - Council House Sales	1.000
Unbudgeted income – other	0.249
Contribution from revenue	1.649
Contribution from Landbanking Fund	1.350
Increased borrowing	1.147
	<u>5.395</u>

3.6 Major Changes in Functions and Service Delivery

Statutory Functions

There have been no major changes in statutory functions during 2012/13.

However from 1 April 2013 the Police and Fire Boards which were funded partly by Highland Council have been merged with other Scottish Police and Fire Boards to form Single Police and Fire Services for Scotland. As a result, effective from that date, the Council no longer has responsibility for providing funding for these functions. During the early part of financial year 2013/14 the financial records of the current Boards will be closed off and balances transferred to the new Single services and to the constituent authorities in line with the Police and Fire Reform (Scotland) Act 2012, and the Transfer of Property, Rights, Liabilities and Obligations (PRiLO) project.

UK Government Welfare reform changes, effective from 1 April 2013, result in a significant change in statutory responsibilities. From that date, the existing council tax benefits system is replaced by a new Scottish Council Tax Reduction scheme, with funding of circa £13m and responsibility for administration resting with the Council. Also from that date, responsibility for former community

care and crisis grants passed from the UK Government Department of Work and Pensions, to the Council. The new scheme administered by the Council is the Scottish Welfare Fund. As a result the Council has funding and responsibility for providing such grants to the public, at an estimated annual cost of £0.8m.

Changes in Functions and Service Delivery

Effective from 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. From that date, Highland Council and NHS Highland have a partnership agreement, with Highland Council being the lead agency for delivery of integrated children's services, and NHS Highland lead agency for integrated adult services.

Approximately 200 staff and £7.5m of budget transferred from NHS Highland to Highland Council for children's services. Approximately 1,400 staff and budget of £86.9m transferred from Highland Council to NHS Highland for adult services.

No other major changes were implemented during the year. In any year, the Council will have a number of changes to service delivery arrangements which will be implemented as a result of its financial plans. Further information on the 2012/13 financial plans are available at <http://www.highland.gov.uk/yourcouncil/committees/thehighlandcouncil/2012-02-09-hc-min-sp.htm>

Revenue and Capital Financial Plans

On 7 February 2013, the Council agreed its revenue budget for the 2013/14 financial year. As a result of the continuation of challenging economic circumstances, the budget was agreed with the requirement to achieve a targeted level of savings to balance the budget for the year. Key figures relating to the budget agreed as are follows.

	Agreed Budget 2013/14 £m	Change from prior year £m	%
General Fund	548.436	* -54.288	*-9.0%
Housing Revenue Account (HRA)	46.842	1.292	+2.8%

*reduction primarily due to transfer of Police and Fire functions to new bodies

The General Fund budget was agreed based upon a package of preventative spending and budget pressures totalling £10.4m, and a package of savings measures totalling £11.6m. Funding was based upon a flat grant settlement and the continuation of a council tax freeze.

The HRA budget was agreed based upon continued investment in the housing stock and a programme of new build housing, funded by efficiency savings and a rent increase of 2%.

Further information is available from the agenda and minute of that meeting at <http://www.highland.gov.uk/yourcouncil/committees/thehighlandcouncil/2013-02-07-hc-min.htm>

On 13 December 2012 the Council agreed an updated General Fund capital programme for the forthcoming three financial years 2013/14 to 2015/16.

	2013/14 £m	2014/15 £m	2015/16 £m
General Fund Capital Programme	73.926	87.742	80.760

Some of the most significant capital schemes (by value) to be taken forward during that three year period include; Sustainable School Estate Review-Secondary £28.8m, Wick High School £17.6m, Greater Fort William Primary Schools £27.4m, Sustainable School Estate Review-Primary £29.8m, Roads Structural Capital Works £13.5m, Inverness West Link Road £11.5m, Strategic Asset Management/Health & Safety improvements £12.9m.

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

The current programme is as follows.

	2013/14 £m	2014/15 £m	2015/16 £m
Scottish Housing Quality Standard	15.904	15.830	15.000
Council house building programme	17.172	33.411	20.697
Total HRA	33.076	49.241	35.697

Source of funds for capital investment:

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

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

Other Methods of Financing

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

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

In relation to PFI schemes, the Council has two schools PFI schemes which have been fully operational for a number of years. Annual revenue obligations under the scheme are fully provided for within the Council's revenue budget and total £22.6m in 2012/13 (£22.2m in 2011/12).

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Sources of funds to provide for the capital investment programme set out earlier are as follows.

	2013/14	2014/15	2015/16
	£m	£m	£m
General Fund Capital:			
- Scottish Government Grant support	26.816	39.932	28.750
- Borrowing	44.120	43.872	49.115
- Other project income	2.990	3.938	2.895
General Fund Sub-Total	73.926	87.742	80.760
HRA Capital:			
- Scottish Government Grant support	2.522	9.750	5.490
- Borrowing	21.549	32.530	26.307
- Capital Receipts	1.900	1.900	1.900
- Capital from Current Revenue	4.325	2.831	2.000
- Landbanking Fund	2.780	2.230	-
HRA Sub-total	33.076	49.241	35.697
Overall total	107.002	136.983	116.457

4. Major Non-current Asset Acquisitions and Disposals

The General Fund and Housing Revenue Account capital programmes are geared towards improving and enhancing assets owned by the Council. During 2012/13 the major projects in the Education, Culture and Sport programme included the construction of schools at Aviemore and Conon Bridge, the refurbishment of Golspie High School and Kinmylies Primary School, and the extension of Kingussie High School. In the Transport, Environment, and Community programme the major projects were the Inverness flood prevention measures (River Ness & South West Inverness), emergency road works at Stromeferry and improvement works at the Sconser Ferry Terminal.

Assets sold in 2012/13	General Fund £m	HRA £m	Total £m
Net book value of assets sold	0.457	2.676	3.133
Capital receipts	(0.627)	(2.244)	(2.871)
Net (gain)/loss on disposal	(0.170)	0.432	0.262

The main disposal in the General Fund was Corsee House, Victoria Street, Nairn.

The Housing Revenue Account programme invested £32.6m in Council house stock during the year.

5. Capital Fund

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

Total 2011/12		Landbanking fund	2012/13 Developers Contributions	Total Capital Fund
£m		£m	£m	£m
30.026	Balance at 1 April 2012	26.807	3.431	30.238
2.269	Developers contributions received	0.197	0.536	0.733
2,714	Council Tax income (second homes)	2.686	-	2.686
0.364	Land sales	0.435	-	0.435
0.225	Interest on balances	0.156	0.036	0.192
0.004	Other Income	0.299	-	0.299
0.236	Transfer from General Fund	0.155	-	0.155
(4.196)	Grants and contributions	(0.469)	(1.816)	(2.304)
(0.315)	Purchase of land	(0.164)	-	(0.164)
(0.207)	Loans written off	(0.019)	-	-
(0.553)	Contribution to HRA capital programme	(1.350)	-	(1.350)
2.214	Transfer from creditors at 1/04/12	-	2.543	2.543
(2.543)	Transfer to creditors at 31/03/13	-	(2.293)	(2.293)
30.238	Balance at 31 March 2013	28.733	2.437	31.170

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

	Balance as at 1/04/12	Loans advanced in year	Loans repaid in year	Loans written off in year	Balance as at 31/03/13
	£m	£m	£m	£m	£m
Highland Housing Alliance	9.780	0.348	(0.155)	(0.019)	9.954
Albyn Housing Society	0.900	-	(0.235)	-	0.665
Knoydart Foundation	0.044	-	(0.044)	-	-
Pentland Housing Association	0.003	0.062	-	-	0.065
Highland Housing Association	-	0.046	-	-	0.046
Lochalsh and Skye Housing Association	-	0.345	-	-	0.345
	10.727	0.801	(0.434)	(0.019)	11.075

6. Retirement Benefits

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

Other Council employees may join the LGPS which locally is The Highland Council Pension Fund administered by Highland Council. Note 23 to the Core Statements details the income and expenditure charged based on estimates by the Fund's Actuary and on the same basis shows that

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

the Council has a net pension liability at 31 March 2013 of £329.521m. The liability is accounted for within the Balance Sheet and through the Pension Reserve.

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

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

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

7. Financial Ratios

31/03/12		31/03/13
	Reserves	
4.02%	Uncommitted General Fund balance as a percentage of annual budgeted net expenditure	3.13%
£1.568m	Surplus transferred to General Fund balance	£1.574m
	Council tax	
95.50%	In year collection rate	95.59%
18.96%	Council tax income as a percentage of overall funding	18.99%
	Financial management	
99.20%	Actual outturn as a percentage of budget	100.16%
£5.423m	(Decrease)/Increase in uncommitted General Fund balance	(£5.292m)

8. Impact of economic climate

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

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
26 June 2013

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

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

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

The Director of Finance has also:-

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

I, the Director of Finance of Highland Council, state that the Statement of Accounts presents a true and fair view of the financial position of the Council as a 31 March 2013 and of its income and expenditure for the year then ended.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
26 June 2013

CORPORATE GOVERNANCE ASSURANCE STATEMENT

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

The statement has been reviewed and assessed by the Assistant Chief Executive. The findings indicate that the Council complies with most of the additional governance requirements. Although the Council's Local Code has been updated to include specific reference to the Role of the CFO, the future governance position will be strengthened by a revision of the Financial Regulations to clarify that the CFO (as well as the Head of Internal Audit and Risk Management) has direct access to the Audit and Scrutiny committee.

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

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

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

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

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

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

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

The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Internal Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control. The Head of Internal Audit and Risk Management's responsibilities

in this regard were discharged through the presentation of the Internal Audit Annual Report to the Audit and Scrutiny Committee on 20 June 2013.

Internal Audit has undertaken a review of the implementation of the Code and the report shows that "reasonable assurance" has been given. The Annual Report on the Code of Corporate Governance will be reported to Audit & Scrutiny Committee in September 2013 and to Council in October 2013.

The Council transferred the management and delivery of Community Learning and Leisure Services to High Life Highland Ltd, a Council owned Company limited by guarantee with charitable status with an associated trading company. The services and standards to be delivered by High Life Highland Ltd, on behalf of the Council, are determined by the Service Delivery Contract. Compliance with the requirements of this Contract is closely monitored by the Client Officer within the ECS Service and the Adult & Children's Services Committee receives regular progress reports and scrutiny of the arms length company is also undertaken by the Audit and Scrutiny Committee.

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

1. Ensure that the actions shown as experiencing 'some slippage' at the end of 2012/13 are carried forward into the new Code and that progress is made to deliver these actions. The three actions concerned are: delivery of all efficiency savings from the Corporate Improvement Programme (CIP); completion of the review of governance arrangements within the Arm's Length Organisations (ALOs) set up by the Council; and for the Community Safety, Public Engagement and Equalities Committee to consider the Communications Strategy. There has been some slippage of savings from the CIP and these will largely be delivered in 2013/14. The audit work on ALOs has been undertaken and the outcome will be reported to the Audit & Scrutiny Committee in September 2013. Work is still required to complete the Communications Strategy and to ensure that it is reported to Committee.
2. Review the Code and report new Code for 2013/14 to Audit & Scrutiny Committee and Council in September 2013. Key areas of work will include delivery of outstanding savings and benefits from the Corporate Improvement Programme (phase one) and delivery of phase two of the Programme; continue to roll out the Public Service Improvement Framework to all services ensuring a robust approach to self assessment and continuous improvement; continuing the delivery of Personal Development Plans for all employees and Elected Members and continuing the Member Development Programme; annual review of Standing Orders and Scheme of Delegation including the changes agreed by the new Council in respect of Committees and Officers and continuing to ensure high levels of conduct from officers and Elected Members in accordance with agreed codes of conduct.
3. On 1 April 2012 the Council and NHS Highland established a delivery model for the integration of care services in the Highlands. This new Lead Agency Model led to staff within Adult Services transferring to NHS Highland and all staff responsible for Children's Services remained with or transferred to the Council. While the statutory responsibility for the delivery of social care services and the budget remains with the Council it is now commissioning adult services from NHS Highland and Children's Services are being commissioned from and provided by the Council. The agreement between the two organisations includes a performance management framework which sets out the outcomes and performance required of both organisations and the Adult & Children's Services Committee includes members from the Council and the Health Board. During 2012/13 full integration of front line services was achieved; the next phase of work will be to further develop collaboration in respect of central and support services.

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

Drew Hendry
Leader of the Council

A Dodds
Chief Executive

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

REMUNERATION REPORT**Highland Council Remuneration Report**

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

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

1. Remuneration Arrangements**i) Councillors**

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

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

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2012/13 the remuneration for the Leader of Highland Council is £37,880. The regulations permit the council to remunerate a Civic Head. The Civic Head role in Highland Council is the Convener in 2012/13. The regulations set out the maximum salary that can be paid to a senior councillor and to the Civic Head as 75% of the Leader salary i.e. £28,410. The Council has also agreed to remunerate the Depute Leader of the council at this level.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have, excluding the Leader and the Civic Head. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £424,118 and the total number of senior councillors permitted is 19. The council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

Until 3 May 2012 Highland Council had 21 senior councillors, including the Leader and Civic Head. From the election of the new Council on 17 May 2012 the Council had 17 senior councillors. The total remuneration in 2012/13 for all councillors is £1,415,067. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

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

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

Remuneration of Senior Councillors and Convenors and Vice-Convenors of Joint Boards for 2012-13

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

2011-12			Senior Councillor Name	Responsibility	2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
37,880	-	37,880	Sandy Park	Convenor until 03.05.12 (£37,880)	3,485	-	3,485
28,410	5,154	33,564	Michael Foxley	Leader of the Council's Administration until 03.05.12 (£28,410)	2,614	-	2,614
24,480	25	24,505	David Alston	Budget Leader and Chairman of Budget Information Group until 03.05.12 (£24,480) and Depute Leader of the Council from 17.05.12 (£28,410)	27,615	-	27,615
429	-	429	John Finnie	Leader of the Opposition to 06.05.11 (£19,962)	*	*	*
19,588	-	19,588	Andrew Hendry	Leader of the Opposition from 07.05.11 to 03.05.12 (£19,962) and Leader of the Council from 17.05.12 (£37,880)	35,460	-	35,460
24,480	-	24,480	Jimmy Gray	City of Inverness Chairman and Provost of Inverness until 03.05.12 (£24,480) then Convenor of the Council from 17.05.12 (£28,410)	27,615	-	27,615
24,480	1,328	24,808	William Fernie	Chair of Education Culture and Sport until 03.05.12. (£24,480)	16,993	551	17,544
19,962	-	19,962	Andrew Millar	Vice Chair of Education Culture and Sport to 03.05.12 (£19,962) then Chair of Community Safety, Public Engagement & Equalities from 01.06.12 (£19,962)	19,676	-	19,676

2011-12					2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
24,480	2,333	26,813	Hamish Fraser	Chair of Gaelic to 03.05.12 (£24,480)	16,993	902	17,895
24,480	-	24,480	Margaret Davidson	Chair of Housing and Social Work to 03.05.12 (£24,480) then Chair of Audit & Scrutiny from 01.06.12 (£19,962)	20,092	-	20,092
19,962	-	19,962	Alasdair Christie	Vice Chair of Housing and Social Work to 03.05.12 (£19,962) then Chair of Adult and Children's Services from 01.06.12 (£24,480)	23,432	-	23,432
24,480	2,934	27,414	Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board to 03.05.12 (£24,480)	2,252	-	2,252
19,962	-	19,962	Isobel McCallum	Vice Chair of Planning Environment and Development to 03.05.12 (£19,962)	16,577	-	16,577
24,480	-	24,480	Carolyn Wilson	Chair of Resources to 03.05.12 (£24,480) then Leader of the Opposition from 01.06.12 (£24,480)	23,814	-	23,814
19,962	1,399	21,361	Linda Munro	Vice Chair of Resources to 03.05.12 (£19,962) then Champions' Coordinator and Children's Champion from 01.06.12 (£19,962)	19,676	7,629	27,305
24,480	6,255	30,735	John Laing	Chair of Transport, Environment and Community Services until 03.05.12 (£24,480)	2,252	-	2,252

2011-12					2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
19,962	-	19,962	Brian Murphy	Vice Chair of Transport, Environment and Community Services to 03.05.12 (£19,962)	16,577	-	16,577
17,422	-	17,422	Jean Urquhart	Chair of Audit and Scrutiny to 23.05.11 (£24,480)	*	*	*
22,592	477	23,069	David Fallows	Chair of Audit and Scrutiny from 23.06.11 to 03.05.12 (£24,480) then Chair of Finance, Housing and Resources from 01.06.12 (£24,480)	23,847	-	23,847
19,141	2,894	22,035	Donnie Mackay	Chair of Caithness, Sutherland, and Easter Ross Planning Applications and Review Committee to 10.01.12 (£19,962)	*	*	*
19,962	-	19,962	David Chisholm	Chair of Ross, Skye and Lochaber Planning Applications and Review Committee to 10.01.12 and Chair of North Planning Application Committee from 10.01.12 to 03.05.12 (£19,962)	1,837	-	1,837
16,983	-	16,983	Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12 to 03.05.12	1,837	-	1,837
19,962	-	19,962	Peter Corbett	Chair of Highland Licensing Committee until 03.05.12 (£19,962)	1,837	-	1,837
*	*	*	Ian Brown	Leader - Inverness City and Area from 13.08.12 (£24,480)	21,440	-	21,440

2011-12					2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration	Senior Councillor Name	Responsibility	Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
*	*	*	George Farlow	Vice Chair of Planning, Environment and Development from 01.06.12 (£19,962)	19,333	5,283	24,616
*	*	*	Elizabeth Macdonald	Vice Chair of Adult and Children's Services from 01.06.12 (£19,962)	19,300	-	19,300
*	*	*	Deirdre Mackay	Leader – Caithness and Sutherland from 20.08.12 (£24,480)	21,281	678	21,959
*	*	*	Elizabeth McAllister	Vice Chair of Transport, Environmental and Community Services from 01.06.12 (£19,962)	19,333	-	19,333
*	*	*	Graham Phillips	Chair of Transport, Environmental and Community Services from 01.06.12 (£24,480)	21,595	1,194	22,789
*	*	*	Thomas Prag	Chair Planning, Environment and Development from 01.06.12 (£24,480)	23,089	400	23,489
*	*	*	Maxine Smith	Chair of Licensing Committee and Chair of Licensing Board from 01.06.12 (£19,962)	19,221	-	19,221

* post not held

Full year equivalent salary is shown in brackets

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

2011-12			Councillor	Board Recharged	2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
£	£	£			£	£	£
-	-	-	Ian Ross, Vice Convenor until 03.05.12	Northern Joint Police Board	-	-	-
*	*	*	Hamish Fraser, Vice Convenor from 06.05.12 to 31.03.13 (£21,308)	Northern Joint Police Board	4,148	-	4,148
12,176	-	12,176	Richard Durham, Convenor until 03.05.12 (£28,410)	Highland and Islands Fire Board	1,120	-	1,120
*	*	*	Audrey Sinclair, Vice Convenor from 07.06.12 to 31.03.13 (£21,308)	Highland and Islands Fire Board	4,135	622	4,757
4,060	-	4,060	Helen Carmichael, Convenor until 03.05.12 and then again from 21.06.12 (£20,294)	Highland and Western Isles Valuation Joint Board	3,526	-	3,526

* Post not held

Full year equivalent salary is shown in brackets

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

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

Members allowances and expenses

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

2011/12 (restated)		2012/13
£000		£000
1,418	Remuneration	1,415
254	Travel and Subsistence	251
45	All other expenses	42
1,717	Total	1,708

ii) Senior Employees

The salary of the Chief Executive is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) of Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Highland Council for the period 2008 to 2013. The salaries of the Directors are based on a fixed percentage of the Chief Executive's salary. The current arrangement is that Directors receive 75% of the Chief Executive's salary. This arrangement was agreed through approval of the Chief Executives report on Directors' Salaries at Highland Council on 24 June 2004.

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

Remuneration of Senior Employees

2011-12			Senior Employee	Position	2012-13		
Salary, fees and allowances	Taxable expenses	Total Remuneration			Salary, fees and allowances	Taxable expenses	Total Remuneration
105,450	-	105,450	William Alexander	Director of Health and Social Care	105,450	-	105,450
110,708	-	110,708	Stephen Barron	Director of Housing & Property also Depute Chief Executive from 08.09.11	115,995	-	115,995
105,450	-	105,450	Stuart Black	Director of Planning, Environment and Development	105,450	-	105,450
154,659	-	154,659	Alistair Dodds	Chief Executive *	144,642	-	144,642
105,450	-	105,450	Hugh Fraser	Director of Education Culture and Sport	105,450	-	105,450
43,913	-	43,913	Derek Yule	Director of Finance from 31.08.11	105,450	-	105,450
105,450	-	105,450	Neil Gilles	Director of Transport, Environmental and Community Services	105,450	-	105,450
105,450	-	105,450	Michelle Morris	Assistant Chief Executive	105,450	-	105,450
36,037	-	36,037	Ian Murray	Chief Executive, High Life Highland from 01.10.11	77,753	-	77,753

* 2012-13: includes £4,530; paid to The Chief Executive in his role as Returning Officer for the Local Government election in May 2012. 2011/12 figure includes £14,547 relating to role as Returning Office and Counting Officer for Caithness, Sutherland and Easter Ross; Inverness, Nairn, Badenoch and Strathspey; and Ross, Skye and Lochaber, constituencies. During the year he received payment for duties relating to the Scottish Parliamentary Election in May 2011; the referendum on the UK Wide Voting System in May 2011; The Crofting Board election and 3 local government by elections.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2012-13	2011-12
50,000 - 54,999	85	79
55,000 - 59,999	42	30
60,000 - 64,999	20	24
65,000 - 69,999	11	7
70,000 - 74,999	11	11
75,000 - 79,999	-	1
80,000 - 84,999	-	-
85,000 - 89,999	-	1
90,000 - 94,999	-	1
95,000 - 99,999	-	-
100,000 - 104,999	-	-
105,000 - 109,999	6	6
110,000 - 114,999	-	-
115,000 - 119,999	1	-
120,000 - 124,999	-	-
125,000 - 129,999	-	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	1	1

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. None of these exit packages relate to compulsory redundancy. Included in the 2012/13 figures are 26 employees who were members of the pension fund (20 2011/12) the gross actuarial cost of these exit packages is £1.316m (£3.354m 2011/12) and the net savings from these severance packages, on an actuarial basis are £3.262m (£8.970m 2011/12).

Number of Employees 2011-12	Total Cost 2011-12 £	Cost Band	Number of Employees 2012-13	Total Cost 2012-13 £
45	311,721	£0 - £20,000	37	229,417
25	788,754	£20,000 - £40,000	7	193,779
7	326,951	£40,001 - £60,000	2	98,335
3	221,515	£60,001 - £80,000	5	340,843
4	353,969	£80,001 - £100,000	4	360,487
6	695,325	£100,001 - £150,000	8	933,179
2	337,475	£150,001 - £200,000	1	191,848
2	465,324	£200,001 - £250,000	-	-
-	-	£250,001 - £300,000	-	-
1	317,929	£300,001 - £350,000	-	-
95	3,818,964	Total	64	2,347,888

2. Appointments

i) Councillors

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

The Senior Councillor posts held in the Council are:

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

ii) Senior Employees

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

There were no changes to the senior employee posts during 2012/13, however as 2012/13 is the first full year of operation for High Life Highland Ltd, the arm's length company set up to deliver community learning and leisure services on behalf of the Council, the remuneration of the Chief Executive of High Life Highland is also reported.

3. Pension Benefits – Councillors and Senior Employees

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

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

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

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

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

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

2012-13 the contribution tiers and rates are as follows:

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

In 2012/13 the employer's contribution rate is 18% of pensionable pay.

2011-12 contribution tiers and rates

Whole time pay	Contribution rate 2011-12
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

In 2011/12 the employer's contribution rate is 290% of the rate paid by the member.

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

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

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

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

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Senior Councillor Pension Benefits

The pension entitlements for Senior Councillors for the year to 31 March 2013 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.13 £000	Difference from March 2012 £000
		31.03.13	31.03.12			
		£	£			
Sandy Park	Convenor until 03.05.12	1,196	7,800	Pension: Lump Sum:	2 16	- 14
Michael Foxley	Leader of the Council's Administration until 03.05.12	897	5,273	Pension: Lump Sum:	2 2	- -
David Alston	Budget Leader and Chairman of Budget Information Group until 03.05.12 and Depute Leader of the Council from 17.05.12	4,912	4,260	Pension: Lump Sum:	2 2	- -
John Finnie	Leader of the Opposition to 06.05.11	-	-	Pension: Lump Sum:	- -	- -
Andrew Hendry	Leader of the Opposition from 07.05.11 to 03.05.12 and Leader of the Council from 17.05.12	6,114	3,075	Pension: Lump Sum:	10 25	1 1
Jimmy Gray	City of Inverness Chairman and Provost of Inverness until 03.05.12 then Convenor of the Council from 17.05.12	-	-	Pension: Lump Sum:	- -	- -
William Fernie	Chair of Education Culture and Sport to 03.05.12	3,182	4,260	Pension: Lump Sum:	2 2	- -
Andrew Millar	Vice Chair of Education Culture and Sport to 03.05.12 then Chair of Community Safety, Public Engagement and Equalities from 01.06.12	3,542	3,242	Pension: Lump Sum:	2 2	- -
Hamish Fraser	Chair of Gaelic to 03.05.12	-	-	Pension: Lump Sum:	- -	- -
Margaret Davidson	Chair of Housing and Social Work to 03.05.12 then Chair of Audit & Scrutiny from 01.06.12	3,684	4,260	Pension: Lump Sum:	2 2	- -
Alasdair Christie	Vice Chair of Housing and Social Work to 03.05.12 then Chair of Adult and Children's Services from 01.06.12	4,150	3,242	Pension: Lump Sum:	1 -	- -

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.13	Difference from March 2012
		31.03.13	31.03.12			
		£	£			
					£000	£000
Ian Ross	Chair of Planning Environment and Development, also Vice Convenor of Northern Joint Police Board to 03.05.12	773	4,260	Pension: Lump Sum:	2 2	- -
Isobel McCallum	Vice Chair of Planning Environment and Development to 03.05.12	3,040	3,242	Pension: Lump Sum:	2 1	- -
Carolyn Wilson	Chair of Resources to 03.05.12 then Leader of the Opposition from 01.06.12	4,287	4,260	Pension: Lump Sum:	2 2	- -
Linda Munro	Vice Chair of Resources to 03.05.12 then Champions' Coordinator and Children's Champion from 01.06.12	3,542	3,242	Pension: Lump Sum:	1 1	- -
John Laing	Chair of Transport, Environment and Community Services to 03.05.12	773	4,260	Pension: Lump Sum:	5 11	- -
Brian Murphy	Vice Chair of Transport, Environment and Community Services to 03.05.12	3,040	3,242	Pension: Lump Sum:	1 1	- -
Jean Urquhart	Chair of Audit and Scrutiny Committee to 23.05.11	512	3,151	Pension: Lump Sum:	12 32	- -
David Fallows	Chair of Audit and Scrutiny Committee from 23.06.11 to 03.05.12 then Chair of Finance, Housing and Resources from 01.06.12	4,293	3,494	Pension: Lump Sum:	2 1	1 -
Donnie Mackay	Chair of Caithness, Sutherland, and Easter Ross Planning Applications and Review Committee to 10.01.12	-	-	Pension: Lump Sum:	- -	- -
David Chisholm	Chair of Ross, Skye and Lochaber Planning Applications and Review Committee to 10.01.12 and Chair of North Planning Application Committee from 10.01.12 to 03.05.12	-	-	Pension: Lump Sum:	- -	- -
Robert Wynd	Chair of South Planning and Applications Committee from 17.01.12 to 03.05.12	630	2,659	Pension: Lump Sum	2 10	-1 9
Peter Corbett	Chair of Highland Licensing Committee to 03.05.12	630	3,242	Pension: Lump Sum:	1 6	-1 4

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.13 £000	Difference from March 2012 £000
		31.03.13	31.03.12			
		£	£			
Ian Brown	Leader – Inverness from 13.08.12	3,735	2,589	Pension: Lump Sum	2 1	- -
George Farlow	Vice Chair of Planning, Environment and Development from 01.06.12	3,424	2,589	Pension: Lump Sum	2 1	- -
Elizabeth Macdonald	Vice Chair of Adult and Children's Services from 01.06.12	3,418	2,589	Pension: Lump Sum	3 7	- -
Deirdre Mackay	Leader – Caithness and Sutherland from 20.08.12	-	-	Pension: Lump Sum	- -	- -
Elizabeth McAllister	Vice Chair of Transport, Environmental and Community Services from 01.06.12	3,424	2,589	Pension: Lump Sum	2 1	- -
Graham Phillips	Chair of Transport, Environmental and Community Services from 01.06.12	3,520	-	Pension: Lump Sum	- -	- -
Thomas Prag	Chair Planning, Environment and Development from 01.06.12	4,032	2,589	Pension: Lump Sum	2 1	- -
Maxine Smith	Chair of Licensing Committee and Chair of Licensing Board from 01.06.12	1,198	-	Pension: Lump Sum	- -	- -
Richard Durham	Convenor of Highland and Islands Fire Board to 03.05.12	897	5,273	Pension: Lump Sum:	6 18	-2 -3
Audrey Sinclair	Vice Convenor of Highland and Islands Fire Board from 07.06.12 to 31.03.13	-	-	Pension: Lump Sum	- -	- -
Helen Carmichael	Convenor of Highland and Western Isles Valuation Joint Board to 03.05.12 and then again from 21.06.12	3,654	3,355	Pension: Lump Sum:	2 2	- -
	Total	76,499	92,037	Pension: Lump Sum:	72 149	-2 25

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

Senior Employee Pension Benefits

The pension entitlements of Senior Employees for the year to 31 March 2013 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Name	Responsibility	Pension Contributions in year to			Accrued Pension Benefits as at 31.03.13 £000	Difference from March 2012 £000
		31.03.13	31.03.12			
		£	£			
William Alexander	Director of Health and Social Care	18,981	31,192	Pension: Lump Sum:	44 111	2 -
Stephen Barron	Director of Housing and Property	20,879	32,747	Pension: Lump Sum:	40 96	4 4
Stuart Black	Director of Planning, Environment and Development	18,981	31,192	Pension: Lump Sum:	38 93	2 -
Alistair Dodds	Chief Executive	25,220	43,070	Pension: Lump Sum:	62 158	2 -
Hugh Fraser	Director of Education Culture and Sport	18,981	31,192	Pension: Lump Sum:	49 125	2 -
Derek Yule	Director of Finance from 31.10.11	18,981	*12,990	Pension: Lump Sum:	45 113	2 -
Neil Gilles	Director of Transport, Environmental and Community Services	18,981	31,192	Pension: Lump Sum:	47 121	2 -
Michelle Morris	Assistant Chief Executive	18,981	31,192	Pension: Lump Sum:	29 65	2 -
Ian Murray	Chief Executive, High Life Highland	13,995	19,492	Pension: Lump Sum:	31 79	3 4
	Total	173,980	263,959	Pension: Lump Sum	385 961	21 8

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

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment. There was a reduction in the rate for the employer's contribution in 2012/13 to 18% from the previous arrangement of 29% of the employee's rate.

A Hendry
Leader of the Council _____

A Dodds
Chief Executive _____

MOVEMENT IN RESERVES STATEMENT 2011/12

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2011	30,834	7,524	1,229	1,486	1,678	30,026	72,777	994,999	1,067,776
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services (accounting basis)	16,413	(2,955)	-	-	-	-	13,458	-	13,458
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(139,786)	(139,786)
Total comprehensive income and expenditure	16,413	(2,955)	-	-	-	-	13,458	(139,786)	(126,328)
Adjustments between accounting basis and funding basis under regulations (note 4)	(13,353)	1,682	89	-	-	-	(11,582)	11,582	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	3,060	(1,273)	89	-	-	-	1,876	(128,204)	(126,328)
Transfers to/from other statutory reserves	(1,492)	553	-	179	548	212	-	-	-
Increase/(decrease) in 2011/12	1,568	(720)	89	179	548	212	1,876	(128,204)	(126,328)
Balance at 31 March 2012	32,402	6,804	1,318	1,665	2,226	30,238	74,653	866,795	941,448

MOVEMENT IN RESERVES STATEMENT 2012/13

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2012	32,402	6,804	1,318	1,665	2,226	30,238	74,653	866,795	941,448
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services (accounting basis)	29,416	(2,352)	-	-	-	-	27,064	-	27,064
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(28,873)	(28,873)
Total comprehensive income and expenditure	29,416	(2,352)	-	-	-	-	27,064	(28,873)	(1,809)
Adjustments between accounting basis and funding basis under regulations (note 4)	(25,388)	1,002	199	-	-	-	(24,187)	24,187	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	4,028	(1,350)	199	-	-	-	2,877	(4,686)	(1,809)
Transfers to/from other statutory reserves	(2,453)	1,350	-	2	168	933	-	-	-
Increase/(decrease) in 2012/13	1,575	-	199	2	168	933	2,877	(4,686)	(1,809)
Balance at 31 March 2013	33,977	6,804	1,517	1,667	2,394	31,171	77,530	862,109	939,639

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
265,461	(11,203)	254,258	Education services		261,172	(10,716)	250,456
82,068	(60,576)	21,492	Housing services		75,859	(60,476)	15,383
40,290	(45,100)	(4,810)	Council Housing – Housing Revenue Account		40,591	(46,226)	(5,635)
37,544	(5,957)	31,587	Cultural and related services		30,706	(2,893)	27,813
46,319	(6,010)	40,309	Environmental services		45,311	(5,843)	39,468
50,503	(11,262)	39,241	Roads and transport services		54,362	(7,965)	46,397
21,186	(12,867)	8,319	Planning and development services		20,258	(11,810)	8,448
140,219	(24,739)	115,480	Social work services		150,432	(31,544)	118,888
9,578	(7,620)	1,958	Central Services to the public		7,624	(6,694)	930
			Joint board requisitions				
19,646	(791)	18,855	Northern Joint Police Board		20,287	(728)	19,559
15,788	-	15,788	Highland and Islands Fire Board		15,617	-	15,617
2,300	-	2,300	Highland and Western Isles Valuation Joint Board		2,378	-	2,378
89	-	89	Highland and Islands Transport Partnership		89	-	89
11,497	(154)	11,343	Corporate and democratic core	6	10,353	(154)	10,199
6,982	(3,444)	3,538	Non Distributed Costs	7	5,428	-	5,428
749,470	(189,723)	559,747	Cost of services carried forward		740,467	(185,049)	555,418

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

		2011/12				2012/13	
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
749,470	(189,723)	559,747	Cost of services brought forward		740,467	(185,049)	555,418
		1,858	Other operating expenditure	8			262
		36,632	Financing and investment income and expenditure				45,043
		(611,695)	Taxation and non-specific grant Income				(627,787)
		<u>(13,458)</u>	Surplus on provision of services				<u>(27,064)</u>
		(1,836)	Surplus on revaluation of non-current assets				(1,986)
		141,622	Actuarial losses on pension assets/liabilities				30,859
		<u>139,786</u>	Other comprehensive income and expenditure				<u>28,873</u>
		<u>126,328</u>	Total comprehensive income and expenditure				<u>1,809</u>

BALANCE SHEET

31/03/12 £000		Notes	31/03/13 £000
1,989,874	Property, plant and equipment	27	2,040,339
240	Intangible assets	31	160
3,974	Long term investments	33	6,008
38,442	Long term debtors	35	42,427
2,032,530	Long term assets		2,088,934
3,050	Short term investments		-
6,804	Inventories	34	5,542
56,758	Short term debtors	36	62,467
57,286	Cash and cash equivalents	17	56,937
2,181	Assets held for sale	32	1,959
126,079	Current assets		126,905
(67,991)	Short term borrowing	42	(52,959)
(100,275)	Short term creditors	37	(101,340)
(4,361)	Provisions	38	(1,076)
(172,627)	Current liabilities		(155,375)
(625,695)	Long term borrowing	42	(665,161)
(418,839)	Other long term liabilities	39	(455,664)
(1,044,534)	Long term liabilities		(1,120,825)
941,448	Net assets		939,639
1,318	Capital Receipts Reserve		1,517
1,665	Renewal and Repair Fund		1,667
30,238	Capital Fund		31,171
2,226	Insurance Fund		2,394
32,402	General Fund		33,977
6,804	Housing Revenue Account		6,804
74,653	Usable reserves	11	77,530
377,101	Revaluation Reserve		375,259
826,866	Capital Adjustment Account		860,343
(37,119)	Financial Instruments Adjustment Account		(35,097)
(289,466)	Pensions Reserve		(329,521)
	Accumulated Compensated Absences		
(10,587)	Adjustment Account		(8,875)
866,795	Unusable reserves	12	862,109
941,448	Total reserves		939,639

The unaudited Statement of Accounts was issued on 26 June 2013.

Derek Yule B.Com. CPFA. IRRV(Hons)
 Director of Finance
 26 June 2013

CASH FLOW STATEMENT

31/03/12 £000		Notes	31/03/13 £000
13,458	Net surplus on the provision of services		27,064
67,898	Adjust net surplus on the provision of services for non-cash movements	13	64,753
<u>(34,416)</u>	Adjust for items included in the net surplus on the provision of services that are investing and financing activities		<u>(44,009)</u>
46,940	Net cash inflow from operating activities		47,808
(97,924)	Net cash outflow from investing activities	15	(116,392)
64,253	Net cash inflow from financing activities	16	68,235
13,269	Net increase(decrease) in cash and cash equivalents		(349)
44,017	Cash and cash equivalents at 1 April 2012		57,286
<u>57,286</u>	Cash and cash equivalents at 31 March 2013	17	<u>56,937</u>

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1 Accounting policies

General principles

The Statement of Accounts summarises the transactions of the Council for the financial year 2012/13 and its financial position at 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (The Code) and the Service reporting code of practice for local authorities 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

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

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

Cash and cash equivalents

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

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

Accounting for the costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted both a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowance required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of the Council's services and is apportioned to the services on the basis of energy consumption.

Charges to revenue for non-current assets

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

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

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

Employee benefits

Short-term employee benefits such as wages and salaries, bonuses and paid annual leave for current employees, are recognised as an expense in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Accumulating Compensating Absences Adjustment Account.

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

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

Retirement benefits

Teachers are admitted to the Teachers Superannuation Scheme, which is administered by the Scottish Government. The arrangements for the teachers' scheme mean that assets and liabilities cannot be attributed specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Services line in the Comprehensive Income and Expenditure Statement is charged with employer's contributions payable to Teachers pensions in the year.

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

Local Government Pension Scheme

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

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

The change in the net pensions liability is analysed and charged to the Comprehensive Income and Expenditure Statement as follows:

- Current service costs, past service cost and gains/losses on settlements and curtailments are included in cost of services
- Interest cost and expected return on assets are included within Financing and Investment Income and Expenditure
- Actuarial gains and losses are included in Other Comprehensive Income and Expenditure
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

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

Discretionary Benefits

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

Events after the Balance Sheet date

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

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

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

Exceptional items

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

Financial Instruments

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

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

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

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

Financial assets

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

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

Government grants and contributions

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

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

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

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

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

Interests in companies and other entities

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

Inventories

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

Leases

Operating Leases

The Council as Lessee

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

The Council as Lessor

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

Overheads and support services

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

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

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

Property, plant and equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.

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

Impairment

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

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

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

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

Disposals and non-current assets held for sale

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

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Where assets no longer meet the criteria to be classified as held for sale they will be re-valued at existing use value and reclassified to Property, Plant and Equipment. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off

to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Heritage assets

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

Intangible assets

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

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

Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent liabilities

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

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

Reserves

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

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

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

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

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

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

The items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £3m for every year that useful lives had to be reduced.
Provisions	The Council has made a provision of £0.564m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase or decrease over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would have the effect of increasing or reducing the provision needed by £0.056m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease of approximately £22.8m in the pension liability.
Arrears	At 31 March 2013 the Council had a balance of sundry debtors of £12.472m. A review of balances suggested that an allowance for impairment of £2.061m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of the amount of doubtful debts would require an additional impairment to be made.

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

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

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

2012/13	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	45,078	12,852	-	57,930	(57,930)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the comprehensive income and expenditure statement	(45,358)	-	-	(45,358)	45,358	-
Net loss on sale of non current assets	(170)	432	-	262	(262)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(26,502)	(6,181)	-	(32,683)	32,683	-
Capital expenditure charged against the General Fund and HRA balances	(328)	(6,403)	-	(6,731)	6,731	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	2,871	2,871	(2,871)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(2,672)	(2,672)	2,672	-

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

2012/13	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4,922)	(448)	-	(5,370)	5,370	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(21,251)	(1,295)	-	(22,546)	22,546	-
Employers' pension contributions and direct payments to pensioners payable in the year	29,929	1,813	-	31,742	(31,742)	-
Adjustments involving the Accumulating Compensated Absences Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,717)	5	-	(1,712)	1,712	-
Adjustments involving the Housing Revenue Account						
Difference between income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(227)	227	-	-	-	-
Total adjustments 2012/13	(25,388)	1,002	199	(24,187)	24,187	-

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

2011/12	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	60,124	13,313	-	73,437	(73,437)	-
Amortisation of intangible assets	80	-	-	80	(80)	-
Capital grants and contributions that have been credited to the comprehensive income and expenditure statement	(34,415)	-	-	(34,415)	34,415	-
Net loss on sale of non current assets	1,024	834	-	1,858	(1,858)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(25,830)	(6,327)	-	(32,157)	32,157	-
Capital expenditure charged against the General Fund and HRA balances	(1,978)	(5,141)	-	(7,119)	7,119	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	3,961	3,961	(3,961)	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(3,872)	(3,872)	3,872	-

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

2011/12	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4,786)	(443)	-	(5,229)	5,229	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	19,682	1,006	-	20,688	(20,688)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(24,222)	(1,238)	-	(25,460)	25,460	-
Adjustments involving the Accumulating Compensated Absences Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3,368)	14	-	(3,354)	3,354	-
Adjustments involving the Housing Revenue Account						
Difference between income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	336	(336)	-	-	-	-
Total adjustments 2011/12	(13,353)	1,682	89	(11,582)	11,582	-

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

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at 1/04/11 £000	Transfers out £000	Transfers in £000	Balance at 31/03/12 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/13 £000
Strategic Change and Development Fund	-	-	-	-	-	5,000	-	5,000
Devolved School Management	2,188	-	582	2,770	(505)	-	-	2,265
Road Maintenance 2013-14	-	-	-	-	-	2,000	-	2,000
IT Investment Fund	1,316	-	141	1,457	(274)	300	8	1,491
Business Rates Incentivisation Scheme	-	-	-	-	-	1,300	-	1,300
Community Challenge Fund	-	-	-	-	-	1,000	-	1,000
Central Energy Efficiency Fund	742	-	5	747	-	-	5	752
Spend To Save Fund	1,475	(666)	51	860	(168)	-	4	696
Caithness Heat and Power	1,207	(567)	8	648	(246)	-	3	405
Future Change Implementation	3,000	(1,936)	19	1,083	(802)	-	4	285
Learning and Teaching	330	(330)	692	692	(692)	277	3	280
Grant and Match Funding	-	-	-	-	-	185	-	185
Inverness Royal Academy Extension	-	-	150	150	-	-	1	151
Building Maintenance Costing Project	781	(250)	6	537	(539)	-	2	-
Customer Services Review	132	(133)	1	-	-	-	-	-
Joint Ventures	429	(429)	-	-	-	-	-	-
Winter Maintenance	344	(344)	-	-	-	-	-	-
Energy Investment Fund	61	(61)	-	-	-	-	-	-
Employability Service	437	(437)	-	-	-	-	-	-
Total	12,442	(5,153)	1,655	8,944	(3,226)	10,062	30	15,810

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 Council.

2011/12 Net £000		2012/13		
		Expenditure £000	Income £000	Net £000
8,154	Democratic representation and management	6,713	-	6,713
3,189	Corporate management	3,640	(154)	3,486
<u>11,343</u>	Total	<u>10,353</u>	<u>(154)</u>	<u>10,199</u>

7. Comprehensive Income and Expenditure Statement – Non distributed costs

Non distributed costs are excluded from individual services and comprise:

2011/12 £000		2012/13 £000
4,945	Pension fund charges for added years and early retirement	3,513
965	Pension fund past service contributions	851
(3,444)	Pension fund settlements and curtailments	778
(1,072)	Depreciation of non-operational properties	286
<u>3,538</u>		<u>5,428</u>

8. Comprehensive Income and Expenditure Statement – Other operating expenditure

2011/12 £000		2012/13 £000
<u>1,858</u>	Losses on the disposal of non-current assets	<u>262</u>

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

2011/12 £000		2012/13 £000
(480)	Gains on trading operations (note 19)	(209)
42,277	Interest payable and similar charges	43,056
(4,650)	Pensions interest cost and expected return on pension assets	2,529
(515)	Interest and investment income	(333)
<u>36,632</u>		<u>45,043</u>

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

2011/12 £000		2012/13 £000
(375,334)	Revenue support grant	(364,996)
(110,147)	Council tax income	(110,716)
(94,846)	Non-Domestic rates	(106,717)
<u>(31,368)</u>	Capital grants and contributions	<u>(45,358)</u>
<u>(611,695)</u>		<u>(627,787)</u>

11. Balance Sheet – usable reserves

31/03/12 £000		31/03/13 £000
1,318	Capital receipts reserve (a)	1,517
1,665	Renewal and repair fund (b)	1,667
30,238	Capital fund (c)	31,171
2,226	Insurance fund (d)	2,394
32,402	General fund	33,977
<u>6,804</u>	Housing Revenue account	<u>6,804</u>
<u>74,653</u>		<u>77,530</u>

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

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

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

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

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

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

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

12. Balance Sheet – unusable reserves

31/03/12		31/03/13
£000		£000
377,101	Revaluation reserve (a)	375,259
826,866	Capital Adjustment Account (b)	860,343
(37,119)	Financial instruments adjustment account (c)	(35,097)
(289,466)	Pensions reserves (d)	(329,521)
(10,587)	Accumulated compensated absences adjustment account (e)	(8,875)
<u>866,795</u>		<u>862,109</u>

(a) Revaluation reserve

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

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

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

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

2011/12		2012/13
£000		£000
360,560	Balance at 1 April	377,101
17,611	Restatement of opening balance	-
<u>378,171</u>	Restated opening balance	<u>377,101</u>
1,836	Upward revaluation of assets	1,985
(2,402)	Difference between fair value depreciation and historical cost depreciation	(2,576)
(504)	Accumulated gains on assets sold	(1,251)
<u>377,101</u>	Balance at 31 March	<u>375,259</u>

(b) Capital adjustment account

The Capital adjustment account absorbs timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Account (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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The account contains accumulated gains and losses on investment properties and also revaluation gains accumulated on property, plant and equipment prior to the creation of the account on 1 April 2007.

Note 4 provides details of the source of all the transactions posted to the account, apart from any involving the Revaluation reserve.

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

2011/12 £000		2012/13 £000
840,118	Balance at 1 April 2012	826,866
<u>(17,611)</u>	Restatement of opening balance	<u>-</u>
822,507	Restated opening balance	826,866
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(73,437)	Charges for depreciation and impairment of non-current assets	(57,930)
(80)	Amortisation of intangible assets	(80)
(5,819)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,132)
	Adjusting amounts written out of the Revaluation reserve	
2,906	Net written out amount of the cost of non-current assets consumed in the year	3,827
	Capital financing applied in the year	
3,872	Use of the Capital Receipts Reserve to finance new capital expenditure	2,672
34,415	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	45,358
32,157	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	32,683
3,226	Repayment of PPP creditors	3,348
7,119	Capital expenditure charged against the General Fund and HRA balances	6,731
<u>826,866</u>	Balance at 31 March 2013	<u>860,343</u>

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(c) Financial instruments adjustment account

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

2011/12 £000		2012/13 £000 £000
(39,122)	Balance at 1 April 2012	(37,119)
	Proportion of premiums and discounts to be charged against the General Fund and HRA balances in accordance with statutory requirements	
5	Current year	-
1,948	Previous financial years	1,952
1,953		1,952
12	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	13
38	Proportion of equivalent interest rate calculation on soft loans	57
<u>2,003</u>	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	<u>2,022</u>
<u>(37,119)</u>	Balance at 31 March 2013	<u>(35,097)</u>

(d) Pensions Reserve

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

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2011/12 £000		2012/13 £000
(152,616)	Balance at 1 April 2012	(289,466)
(141,622)	Actuarial gains or losses on pension assets and liabilities	(30,859)
(20,688)	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	(31,742)
25,460	Employer's pension contributions and direct payments to pensioners payable in the year	22,546
<u>(289,466)</u>	Balance at 31 March 2013	<u>(329,521)</u>

(e) Accumulated compensated absences adjustment account

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

2011/12 £000		2012/13 £000
(13,941)	Balance at 1 April 2012	(10,587)
13,941	Settlement or cancellation of accrual made at the end of the preceding year	10,587
(10,587)	Amounts accrued at the end of the current year	(8,875)
<u>(10,587)</u>	Balance at 31 March 2013	<u>(8,875)</u>

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

2011/12 £000		2012/13 £000
	Non-cash items	
73,518	Depreciation and impairments	58,010
2,247	Loss on sale of fixed assets	262
2,844	Amounts written off long term investments	-
(4,772)	IAS 19 transactions	9,196
(3,902)	Financial instruments adjustments	(3,870)
	Items on accruals basis	
(2,167)	Decrease/(increase)in stock	1,261
(13,506)	Decrease/(increase) in debtors	(3,725)
17,431	Increase in creditors	6,904
(3,796)	Decrease In provisions	(3,285)
<u>67,897</u>		<u>64,753</u>

14. Cash flow statement – operating activities

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

2011/12 £000		2012/13 £000
<u>(561)</u>	Interest received	<u>(302)</u>
<u>40,760</u>	Interest paid	<u>42,844</u>

15. Cash flow statement – investing activities

2011/12 £000		2012/13 £000
96,150	Purchase of property, plant and equipment	114,819
1,830	Other payments for investing activities	5,109
(5,443)	Proceeds from the sale of property, plant and equipment	(2,439)
6,000	Purchase of long and short-term investments	1,977
<u>(613)</u>	Other receipts from investing activities	<u>(3,074)</u>
<u>97,924</u>	Net cash flows from investing activities	<u>116,392</u>

16. Cash flow statement – financing activities

2011/12 £000		2012/13 £000
42,300	Cash receipts of short and long term borrowing	92,060
34,415	Other receipts from financing activities	44,009
<u>(12,462)</u>	Repayments of short and long term borrowing	<u>(67,834)</u>
<u>64,253</u>		<u>68,235</u>

17. Cash flow statement – cash and cash equivalents

	At 1 April 2012 £000	Cash flow £000	At 31 March 2013 £000
Temporary investments	67,021	3,661	70,682
Cash in hand	91	(2)	89
Cash at bank	(9,826)	(4,008)	(13,834)
Total cash and cash equivalents	<u>57,286</u>	<u>(349)</u>	<u>56,937</u>

18. Amounts reported for resource allocation decisions

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

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

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

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Service income and expenditure

	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
2012/13	£000	£000	£000	£000	£000	£000	£000	£000
Education, Culture and Sport	8,041	3,148	-	11,189	160,209	86,635	246,844	235,655
Housing (non HRA), Property and Architectural services	19,651	531	2	20,184	6,589	24,936	31,525	11,341
Building Maintenance	17,475	-	-	17,475	3,441	14,114	17,555	80
Planning and Development service	9,605	-	1	9,606	7,527	9,859	17,386	7,780
Health and Social Care	27,220	4,839	-	32,059	51,482	115,504	166,986	134,927
Transport, Environment and Community services	101,129	381	38	101,548	57,343	108,993	166,336	64,788
Chief executive's office	13,441	131	-	13,572	12,393	25,503	37,896	24,324
Finance services	7,403	-	-	7,403	16,766	2,664	19,430	12,027
Housing benefits	53,135	-	-	53,135	-	53,302	53,302	167
Non-Domestic rate relief	-	-	-	-	-	687	687	687
Loan charges	-	-	-	-	-	52,099	52,099	52,099
Interest and investment income	-	-	264	264	-	-	-	(264)
Joint board requisitions								
Northern Joint Police Board	-	728	-	728	-	20,288	20,288	19,560
Highland and Islands Fire Board	-	-	-	-	-	15,614	15,614	15,614
Highland and Western Isles Valuation Joint Board	-	-	-	-	-	2,379	2,379	2,379
Highland and Islands Transport Partnership	-	-	-	-	-	89	89	89
	257,100	9,758	305	267,163	315,750	532,666	848,416	581,253

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Service income and expenditure

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

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
574,888	Net expenditure in the service analysis	581,253
(1,591)	Net expenditure of services not included in the analysis	(5,635)
35,742	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	45,007
(49,292)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(65,207)
<u>559,747</u>	Cost of services in Comprehensive Income and Expenditure Statement	<u>555,418</u>

Reconciliation to subjective analysis

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

2012/13	Service analysis £000	Services and support services not in analysis £000	Amounts not reported to management £000	Non statutory charges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	257,099	45,283	-	-	302,382	-	302,382
Interest and investment income	306	-	-	-	306	550	856
Income from council tax	-	-	-	-	-	110,716	110,716
Government grants and contributions	9,758	-	-	687	10,445	517,072	527,517
Total Income	267,163	45,283	-	687	313,133	628,337	941,470
Employee expenses	325,043	5,389	2,211	-	332,643	2,529	335,172
Other service expenses	523,373	21,407	(2,305)	(12,421)	530,054	-	530,054
Depreciation, amortisation and impairment	-	12,852	45,158	-	58,010	-	58,010
Interest payments	-	-	(57)	(52,099)	(52,156)	43,064	(9,092)
Loss on disposal of non-current assets	-	-	-	-	-	262	262
Total expenditure	848,416	39,648	45,007	(64,520)	868,551	45,855	914,406
Surplus or deficit on the provision of services	581,253	(5,635)	45,007	(65,207)	555,418	(582,482)	(27,064)

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

19. Trading operations

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

Details of significant trading operations are as follows:

Roads and Community Works

This organisation is an amalgamation of Roads, Public Conveniences and Grounds Maintenance to enable cross working of the workforce on the various activities. From 1 April 2012 the street cleaning function transferred to waste management. The financial target over three years is to make an appropriate surplus after depreciation charges, given trading conditions. As a result of a change in the Council's policy on purchasing vehicles and plant, previously through leasing, now through capital purchase, depreciation charges are applied in line with the Council's accounting policies.

Waste Management

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

Fishery Piers and Harbours

The Harbour organisation trades commercially with vessels from the home and foreign fishing fleet. Transport piers are used by commercial ferry operators who pay dues for the use of the facilities. The target is to break even after depreciation.

Building Maintenance

This organisation undertakes the provision of building repairs to Housing Services and other Council Services. Income is generated by a combination of schedule of rates and charging an hourly rate to recover costs. The target is to make the surplus determined by the Council when the Revenue Budget is set, which was £0.099m in 2012/13 (£0.314m in 2011/12).

Vehicle Maintenance

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

Project Design

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

Summary of Financial Results

A summary of the financial results of trading operations for 2012/13 is as follows:

	Turnover £000	Expenditure £000	Surplus £000
Roads and Community Works	20,160	20,657	(497)
Waste Management	16,655	16,011	644
Fishery Piers and Harbours	17,630	17,408	222
Building Maintenance	17,475	17,726	(251)
Vehicle Maintenance	4,112	3,815	297
Project Design	3,808	3,195	613
Surplus/(deficit) on trading operations	79,840	78,812	1,028
Less internal surplus included in respective services net expenditure			(824)
Add interest on revenue balances			5
Surplus on trading organisations as reported in Comprehensive Income and Expenditure Statement (see note 9)			209

	2010/11 £000	2011/12 £000	2012/13 £000	3 year surplus £000
Roads and Community Works	481	119	(497)	103
Waste Management	1,298	452	644	2,394
Fishery Piers and Harbours	525	460	222	1,207
Building Maintenance	666	348	(251)	763
Vehicle Maintenance	215	112	297	624
Project Design	189	525	613	1,327
	3,374	2,016	1,028	6,418

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

20. Agency Services

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2012/13 the Council paid over £29.617m and received £0.638m for providing this service. During 2011/12 the Council paid over £29.884m and received £0.683m for providing this service.

21. External audit costs

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

2011/12 £000		2012/13 £000
457	Fees payable to Audit Scotland with regard to external audit services	440

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

22. Pension schemes accounted for as defined contribution schemes

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

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

In 2012/13 the Council paid £13.801m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2011/12 were £13.964m and 14.9%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are included in the information presented in note 23.

23. Defined benefit pension schemes

Participation in pension schemes

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

The authority has two post employment arrangements:

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

assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due

Transactions relating to post employment benefits

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

2011/12 £000		2012/13 £000
	Comprehensive Income and Expenditure Statement	
	Cost of services	
27,817	Current service cost	27,584
965	Past service cost	851
<u>(3,444)</u>	Settlements and curtailments	<u>778</u>
25,338		29,213
	Financing and investment income and expenditure	
45,785	Interest cost	46,146
<u>(50,435)</u>	Expected return on scheme assets	<u>(43,617)</u>
(4,650)		2,529
20,688	Total post employment benefits charged to the surplus or deficit on the provision of services	31,742
	Other post employment benefits charged to the comprehensive income and expenditure statement	
141,622	Actuarial gains and losses	30,859
<u>162,310</u>	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	<u>62,601</u>
	Movement in reserves statement	
	Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	
<u>(20,688)</u>		<u>(31,742)</u>
	Actual amount charged against the General Fund balance for pensions in the year	
<u>25,460</u>	Employers contributions payable to the scheme	<u>22,546</u>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £221.788m.

Assets and liabilities in relation to post employment benefits

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

31/03/12 £000		31/03/13 £000
(850,973)	Opening defined benefit obligation	(990,806)
(27,817)	Current service cost	(27,584)
(45,785)	Interest cost	(46,146)
(108,367)	Actuarial loss	(96,743)
29,933	Estimated benefits paid (net of transfers in)	30,746
(7,940)	Contributions by scheme participants	(6,322)
1,484	Unfunded pension payments	3,216
(965)	Past service cost	(851)
(1,479)	Losses on curtailments	(778)
<u>21,103</u>	Liabilities extinguished on curtailments	<u>-</u>
<u>(990,806)</u>	Closing value	<u>(1,135,268)</u>

Reconciliation of fair value of the scheme assets

31/03/12 £000		31/03/13 £000
698,357	Opening fair value of scheme assets	701,340
50,435	Expected return on Scheme assets	43,617
(33,255)	Actuarial loss/(gain)	65,884
25,460	Contributions by employer	22,546
7,940	Contributions by Scheme participants	6,322
(31,417)	Estimated benefits paid (net of transfers in)	(33,962)
<u>(16,180)</u>	Payment of bulk transfer value	<u>-</u>
<u>701,340</u>	Closing value	<u>805,747</u>

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

The actual return on scheme assets in the year was £95.113m (2011/12 £14.270m).

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	(1,135,268)	(990,806)	(850,973)	(955,402)	(591,256)
Fair value of assets	805,747	701,340	698,357	636,316	444,647
Deficit	(329,521)	(289,466)	(152,616)	(319,086)	(146,609)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits.

The balance sheet figure takes into account that Highland Council has retained responsibility for the net liabilities relating to employees who transferred to High Life Highland and NHS Highland in relation to service prior to the transfer dates of 1 October 2011 and 1 April 2012 respectively.

The total liability of £329.521m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie, before payments fall due), as assessed by the scheme actuary.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £18.295m.

Basis for estimating assets and liabilities

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

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

2011/12		2012/13
2%	Expected rate of return on assets in the scheme	6.1%
Life expectancy from age 65 (years)		
Retiring today		
21.3	Males	21.3
23.5	Females	23.6
Retiring in 20 years		
22.6	Males	22.6
25.1	Females	25.1

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Financial Assumptions

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	4.4%
50%	Take up of option to convert annual pension into retirement lump sum	50%

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

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

History of experience gains and losses

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

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Differences between the expected and actual return on assets	8.2	(4.7)	0.8	24.0	(37.8)
Experience gains and losses on liabilities	(3.4)	(0.4)	0.0	0.9	2.1

24. Local Government Pension Scheme

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

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

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

25. Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council

Central Government

The Scottish Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

An analysis of government grants received during the year is set out in note 41.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in the remuneration report.

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

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

Until 31 March 2013, Highland Council was a constituent authority of the Northern Joint Police Board, Highland and Islands Fire Board, Highland and Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership. The net expenditure shown in the Comprehensive Income and Expenditure Statement represents the Council's requisition or proportion of the costs of these Boards.

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

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

Pension fund

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

The Council charged the Pension Fund £0.790m (2011/12 £0.641m) for expenses incurred in administering the Pension Fund in the year.

Entities controlled or significantly influenced by the Council

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

High Life Highland

High Life Highland (HLH) is a charitable company limited by guarantee which was incorporated along with its wholly owned subsidiary High Life Highland (Trading) CIC on 1

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October 2011 to deliver community learning and leisure services on behalf of The Highland Council. The Highland Council is the sole member of the company.

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

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

Highland Opportunity Limited (HOL)

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

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

Financial Year End	Net Assets	Profit/(loss) before taxation	Profit/(loss) after taxation
	£000	£000	£000
31 March 2012	1,209	(201)	(201)
31 March 2011	1,554	936	937

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

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

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

	Net assets (Liabilities)	Profit/(loss) before taxation	Profit/(loss) after taxation
	£000	£000	£000
Year ended 31 March 2012			
Highland Opportunity (Communities) Limited	351	(2)	(2)
Highland Opportunity (EBS) Limited	140	48	48
Highland Opportunity (Investments) Limited	2,170	25	22
Ness Horizons Ltd	(24)	18	22
Year ended 31 March 2011			
Highland Opportunity (Communities) Limited	353	3	3
Highland Opportunity (EBS) Limited	93	36	36
Highland Opportunity (Investments) Limited	2,148	2,176	2,171
Ness Horizons Ltd	(46)	(4)	(4)

Pathfinder North

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

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

As well as providing an element of day to day support to the partnership, Highland, like all members is making an annual contribution towards project management and contractor charges not covered by the Scottish Government grant. Highland Council's contribution in 2012/13 was £0.823m (2011/12 £0.823m).

The partnership carried out an option appraisal exercise to identify the preferred option for the delivery of high capacity broadband services beyond the current contract expiry date of 20 March 2014. The outcome of this appraisal exercise showed that a best value solution could be achieved by formally awarding a contract extension and participating as a Vanguard member in the national Scottish Wide Area Network (SWAN) aggregated procurement from March 2016 onwards. The Shetland Isles Council chose to adopt a different approach but the remaining four Councils joined by Comhairle nan Eilean Siar agreed to proceed on the basis of joining SWAN from March 2016 onwards and have signed a new Minute of Agreement to cover this arrangement.

Pathfinder

The Government Grant of £62m to fund the Pathfinder contract will be fully utilised by the autumn of 2013 after which the accumulated contributions from each of the partners will be used to fund the payments to the contractor. The funding arrangements to meet service delivery costs from March 2014 to March 2016 and subsequently to the Scottish Wide Area Network are currently being assessed and factored into future years budgetary requirements and pressures by the Partner authorities.

NHS Highland

From 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. Under the partnership agreement effective from that date, Highland Council is the lead agency for the delivery of integrated children's services and NHS Highland lead agency for integrated adult services.

Approximately 200 staff and budget of £7.5m transferred from NHS Highland to Highland Council for children's services and budget of £86.9m transferred from Highland Council to NHS Highland for adult services.

Caithness Heat and Power (CHaP)

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

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Following the Council's decision that CHaP would cease trading on 23 December 2011 the company was struck off by the Registrar of Companies on 21 September 2012 and consequently the company no longer exists.

Following the striking off of ChaP, and the sale of the infrastructure to Ignis Biomass Ltd, the level of risk falling on the Highland Council has reduced.

However the following issues and risk remained with the Council during 2012/13 and they have been treated as outlined below.

1. Following a review of the documentation and correspondence between the Council and Energy Savings Trust (EST), it was decided that the provision of £2.803m for possible repayment of grants is no longer required. Consequently the provision was written back during 2012/13.
2. An amount of £405k has been earmarked within the general fund balance to meet any liability arising for re-instatement costs. The need to hold this earmarked balance will be reviewed during 2013/14.
3. The Council's loan of £5.336m and associated interest £0.079m due to be repaid by CHaP were fully written off in prior years.
4. During 2012/13 the Council received the remaining proceeds from the auction of CHaP assets that was ongoing at the time of the closure of the Council's 2011/12 accounts. The proceeds received by the Council during 2012/13 amounted to £0.119m.
5. Where legally permitted the Council will continue to pursue the amounts due from former customers of CHaP currently estimated to £0.168m.

26. Operating Leases

Highland Council as Lessor

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

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

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

31/03/12 £000		31/03/13 £000
1,939	Not later than one year	2,069
6,100	Later than one year and not later than five years	6,790
<u>61,565</u>	Later than five years	<u>66,068</u>
<u>69,604</u>		<u>74,927</u>

Highland Council as Lessee

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

31/03/12		31/03/13
£000		£000
6,224	Not later than one year	4,861
9,078	Later than one year and not later than five years	8,368
<u>5,605</u>	Later than five years	<u>5,552</u>
<u>20,907</u>		<u>18,781</u>

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

31/03/12		31/03/13
£000		£000
<u>7,396</u>	Minimum lease payments	<u>5,984</u>

27. Property, plant and equipment

Movements in 2012/13

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2012	706,315	972,688	67,225	332,547	1,722	6,777	26,540	2,113,814	166,155
Additions	32,361	19,276	11,503	27,140	374	406	11,390	102,270	60
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	-	(5,895)	-	-	-	(274)	-	(6,169)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	425	-	-	31	15	-	471	-
Derecognition - disposals	(2,676)	-	(3)	-	-	(35)	-	(2,714)	-
Derecognition – other	-	-	-	-	-	127	(1,082)	(955)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	(410)	(410)	-
Reclassifications	-	7,052	-	-	-	-	(7,052)	0	-
Other movements	-	-	-	-	-	-	-	-	-
At 31 March 2013	736,270	993,546	78,725	359,687	2,127	7,016	29,386	2,206,757	166,215

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2012	23,119	38,297	21,819	40,584	-	121	-	123,940	7,932
Depreciation charge	12,318	13,924	7,518	9,968	-	13	-	43,741	2,645
Depreciation written out to the revaluation reserve	-	(843)	-	-	-	(1)	-	(844)	-
Depreciation written out to the surplus/deficit on provision of services	-	(390)	-	-	-	(12)	-	(402)	-
Derecognition - disposals	-	-	(1)	-	-	(3)	-	(4)	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	(14)	-	-	-	-	-	(14)	-
At 31 March 2013	<u>35,437</u>	<u>50,974</u>	<u>29,366</u>	<u>50,552</u>	<u>-</u>	<u>134</u>	<u>-</u>	<u>166,417</u>	<u>10,577</u>
Net book value									
At 31 March 2013	<u>700,833</u>	<u>942,572</u>	<u>49,389</u>	<u>309,134</u>	<u>2,127</u>	<u>6,898</u>	<u>29,386</u>	<u>2,040,339</u>	<u>155,638</u>
At 31 March 2012	<u>683,196</u>	<u>934,391</u>	<u>45,406</u>	<u>291,963</u>	<u>1,722</u>	<u>6,656</u>	<u>26,540</u>	<u>1,989,874</u>	<u>158,223</u>

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Comparative movements in 2011/12

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2011	693,099	940,452	49,728	313,310	1,361	8,252	47,705	2,053,907	166,150
Additions	24,239	19,040	18,935	19,237	361	379	14,868	97,059	5
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(709)	(24,070)	-	-	-	(705)	-	(25,484)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(6,092)	3,473	-	-	-	442	-	(2,177)	-
Derecognition - disposals	(4,089)	(1,373)	(18)	-	-	(400)	(160)	(6,040)	-
Derecognition – other	(133)	(592)	-	-	-	(276)	-	(1,001)	-
Assets reclassified (to)/from Held for Sale	-	(80)	(1,420)	-	-	(950)	-	(2,450)	-
Reclassifications	-	35,838	-	-	-	35	(35,873)	-	-
Other movements	-	-	-	-	-	-	-	-	-
At 31 March 2012	706,315	972,688	67,225	332,547	1,722	6,777	26,540	2,113,814	166,155

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

28. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2013, for the acquisition of property, plant and equipment, was £81.031m (31 March 2012 £80.442). Details of the major commitments by contract or project are as follows:

Contract or Project	2012/13 £m
HRA Housing – council house new builds	22.734
Reconstruction of Market Square offices, Wick	7.774
Lochaber High School extension	9.588
HRA Housing – heating programmes	7.625
Miscellaneous projects (individual commitments less than £0.5m)	7.029
Highland Folk Museum	2.930
Biomass and heating replacements Highland wide schools	2.209
Raigmore Primary School extension	1.954
Kingussie High School extension	1.899
South Loch Ness (851/B862) road improvements	1.825
ICT equipment	1.684
HRA Housing – re-roofing and insulation programmes	1.610
Invernevis Housing refurbishment phase 2	1.364
HRA Housing – external cladding programmes	1.288
Wick Town Hall access works	1.066
Strathcarron Junction to Balnacra (A890)	1.030
Laxford Bridge North approach	1.030
Muchrachd Bailey Bridge	0.904
Ben Wyvis – New Primary School	0.850
HRA Housing – kitchen programmes	0.839
Estate Strategy – Lifecycle Investment	0.750
HRA Housing – bathroom programmes	0.730
HRA Housing – Glendoe Terrace, Inverness phase 2	0.693
Ach An Eas refurbishment phase 2	0.619
Sconser Ferry terminal	0.507
Aviemore – New Primary School	0.500
	<u>81.031</u>

29. Capital expenditure and capital financing

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

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2011/12 £000		2012/13 £000
771,472	Opening capital financing requirement	790,712
	Capital investment	
100,042	Property, plant and equipment	109,320
	Sources of finance	
(3,872)	Capital receipts	(2,672)
(34,415)	Government grants and other contributions	(44,908)
	Sums set aside from revenue	
(7,119)	- direct revenue contributions	(6,732)
(32,157)	- loans fund principal	(32,683)
(13)	House loans	(21)
(3,226)	PPP finance lease creditors	(3,348)
-	Movement in long term investments	-
<u>790,712</u>	Closing capital financing requirement	<u>809,668</u>
	Explanation of movements in the year	
19,227	Increase in underlying need to borrow (supported by government financial assistance)	18,935
13	Increase in underlying need to borrow (unsupported by government financial assistance)	21
<u>19,240</u>	Increase in capital financing requirement	<u>18,956</u>

30. Private finance initiatives and similar contracts

Fujitsu Services Ltd

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

Community Schools (Highlands) Ltd

The Council signed a PPP contract with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this contract in 2012/13 was £3.521m (2011/12 £3.350m). This charge covers the cost of the use of the school plus an amount relating to the transfer of the asset to the Council at the end of the contract.

The total amount payable under the contract from April 2012 until July 2027 amounts to £50.4m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £22.2m over the remaining term of the contract.

The Council has received notification from Henderson Equity Partners that they sold their 100% shareholding in Community Schools (Highlands) Ltd to Civic PFI Investments Ltd on 28 June 2012.

During 2011/12 the Council also received notification that the funder, agent and security trustee for the project were going to change. During 2012/13 it was confirmed that only the funder for the project changed with the Bank of Tokyo-Mitsubishi UFJ Ltd taking over the role

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of funder from the Royal Bank of Scotland (RBS). RBS continues to be the agent and security trustee for the project.

Alpha Schools (Highland) Ltd

The Council signed a 30 year PPP contract with Alpha Schools (Highland) Ltd on 30 March 2006 for the provision of 11 schools. After a phased introduction, all the school buildings are now available to the Council. The annual unitary charge for this contract in 2012/13 was £19.642m (2011/12 £19.036m). This charge covers the cost of the use of the schools plus an amount relating to the transfer of the assets to the Council at the end of the contract.

The total amount of unitary charge payable by the Council over the remaining term of the contract term is estimated to be £471.4m. (estimated cash prices). The Council receives Revenue Support of £7.16m per annum from the Scottish Government towards these costs. This support is estimated to amount to £171.2m over the remaining term of the contract.

In March 2013 Alpha Schools (Highland) Ltd advised the Council that 3i Infrastructure plc sold their 50% shareholding in Alpha Schools (Highland) Ltd to InfraRed Capital Partners Ltd (owned by HSBC). This acquisition takes InfraRed Capital Partners Ltd's holding in Alpha Schools (Highland) Ltd to 100%.

Property, plant and equipment

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

Liabilities arising from PFI and similar contracts

2011/12 £000		2012/13 £000
(139,540)	As at 1 April 2012	(136,314)
3,226	Repaid in year	3,348
<u>(136,314)</u>	As at 31 March 2013	<u>(132,966)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2013 (excluding any estimation of inflation and availability/performance deductions) are as follows

Payments due	Repayment of liability £000	Interest and service charges £000	Total £000
within one year	3,468	19,468	22,936
within 2 to 5 years	14,956	79,607	94,563
within 6 to 10 years	23,687	101,124	124,811
within 11 to 15 years	29,475	100,359	129,834
within 16 to 20 years	29,796	89,622	119,418
within 21 to 25 years	31,583	69,215	100,798
	<u>132,965</u>	<u>459,395</u>	<u>592,360</u>

31. Intangible Assets

31/03/12			31/03/13	
£000			£000	
		Cost or valuation		
400		As at 31 March 2012	400	
-		Revaluations	-	
<u>400</u>		As at 31 March 2013	<u>400</u>	
		Cumulative depreciation		
80		As at 31 March 2012	160	
80		Charge for year	80	
<u>160</u>		As at 31 March 2013	<u>240</u>	
		Net book value		
<u>240</u>		As at 31 March 2013	<u>160</u>	
<u>320</u>		As at 31 March 2012	<u>240</u>	

32. Assets held for sale

2011/12			2012/13	
£000			£000	
794		As at 1 April 2012	2,181	
2,443		Reclassifications	396	
502		Revaluation increases/(decreases) recognised in the revaluation reserve	30	
118		Revaluation increases/(decreases) recognised in the surplus/(deficit) on the provision of services	(225)	
(1,658)		Assets sold	(423)	
(18)		Impairment losses	-	
<u>2,181</u>		As at 31 March 2013	<u>1,959</u>	

33. Long term investments

31/03/12			31/03/13	
Cost	Carrying Amount		Cost	Carrying Amount
£000	£000		£000	£000
1,175	946	Inverness Airport Business Park Ltd	1,175	1,003
3,000	3,028	Other long term investments	5,000	5,005
<u>4,175</u>	<u>3,974</u>		<u>6,175</u>	<u>6,008</u>

34. Inventories

31/03/12			31/03/13	
£000			£000	
<u>6,804</u>		Raw materials and consumables	<u>5,542</u>	

35. Long term debtors

31/03/12		31/03/13
£		£
17,224	Police Board	16,545
10,138	Fire Board	9,265
10,003	Landbanking fund advances	10,507
-	National Housing Trust	5,100
168	House Loans	147
39	Car Loans	35
870	Other loans	828
5,336	Caithness Heat and Power	5,336
(5,336)	Caithness Heat and Power Impairment	(5,336)
<u>38,442</u>	Long term debtors (net of impairment)	<u>42,427</u>

36. Short term debtors

31/03/12		31/03/13
£000		£000
9,318	Central government bodies	13,129
821	Other local authorities	7,215
3,492	NHS bodies	-
2,823	Public corporations	12
40,304	Other entities and individuals	42,111
<u>56,758</u>	Total (net of impairment)	<u>62,467</u>

37. Short term creditors

31/03/12		31/03/13
£000		£000
13,419	Central government bodies	21,113
4,158	Other local authorities	9
175	NHS bodies	1,262
824	Public corporations	11
6,940	Finance lease creditors	6,822
74,759	Other entities and individuals	72,123
<u>100,275</u>	Total	<u>101,340</u>

38. Provisions

	Note	At 1/04/12	Increase in provision	Use of provision	Unused amounts reversed during the year	At 31/03/13
		£000	£000	£000	£000	£000
Caithness Heat and Power Ltd	1	2,803	-	-	(2,803)	-
Equal Pay	2	605	215	(256)	-	564
Single Status	2	642	-	(581)	(61)	-
Insurance	3	311	512	(311)	-	512
		<u>4,361</u>	<u>727</u>	<u>(1,148)</u>	<u>(2,864)</u>	<u>1,076</u>

(1) Provision made in prior years for possible repayment of grants to the Energy Savings Trust no longer required and written back during 2012/13

(2) Provision made to meet anticipated costs of outstanding equal pay and single status claims, appeals against job evaluation outcomes and other related liabilities

(3) Provision made for outstanding insurance claims

39. Long Term Liabilities

31/03/12		31/03/13
£000		£000
289,466	Pension Liability	329,521
129,373	Finance lease creditors	126,143
<u>418,839</u>		<u>455,664</u>

40. Contingent liabilities**Mallaig Harbour Authority**

The Council has guaranteed a 25 year loan from the Public Works Loan Board to Mallaig Harbour Authority. The Harbour Authority's current loan obligations to the PWLB comprise half yearly repayments of principal and interest totalling £0.034m. The balance of that loan as at 31 March 2013 is £0.290m.

In the event of default by the Harbour Authority in making any repayment, the PWLB would be entitled to demand payment of those instalments by the Council.

The Council in acting as loans guarantor is doing so under the powers, inter alia, of Section 171A of the Local Government (Scotland) Act 1973. The Council holds security over the Harbour Authority's land and buildings.

Aonach Mor Development

The ground used for the ski development is leased by The Highland Council from the owners, and sub-let to the Nevis Range Development Company. The Council is obliged to remove all buildings, machinery and other items at the expiry or earlier termination of the leases, and to restore the let subjects to their original condition. Restoration may not be required if operation of the resort can be continued. The cost of restoration cannot be readily quantified, but would be considerable. The leases expire in 2048.

Lochinver Harbour Bonded Warehouse

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

Equal Pay and Job Evaluation

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

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

41. Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13

2011/12 £000		2012/13 £000
	Credited to Taxation and non-specific grant income	
375,334	Revenue support grant	364,996
94,846	Non-Domestic rates	106,717
34,415	Capital grants and contributions	45,358
504,595		517,071
	Credited to Council Tax Income	
13,568	Council Tax benefit subsidy	13,288
	Credited to services	
	Department of Works and Pensions	
52,559	Housing benefits	53,055
	General Fund Housing	
1,660	Public Sector Housing Grant	1,579
406	Universal Home Insulation	531
	Transport, Environment and Community Services	
1,584	Scottish Government – Road Repairs	213
198	Scottish Government – Private Water Supplies	84
261	Transport Scotland – Trunk Road Schemes	170
-	Transport Scotland – Electric Vehicles	47
35	Food Standards Agency – Shellfish Sampling	164
	Education, Culture and Sport	
970	Gaelic	965
1,073	EMA Co-ordination	1,026
281	Activity agreement pilots	230
	Social Work Services	
-	NHS Commissioned Child Health	7,546
3,225	Criminal Justice Grant	3,153
9,753	NHS Resource Transfer	-
-	Family Nurse Partnership	139
-	European Childcare Staff Qualifications	60
590,168	Total	599,321

42. Financial instrument balances

Categories of Financial Instruments

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

31/03/12			31/03/13	
Long term £000	Current £000		Long term £000	Current £000
Investments				
3,974	67,021	Loans and receivables	1,003	75,687
<u>3,974</u>	<u>67,021</u>	Total investments	<u>1,003</u>	<u>75,687</u>
Debtors				
38,442	54,130	Loans and receivables	42,428	60,078
3,974	3,050	Financial assets carried at contract amounts	5,005	-
<u>42,416</u>	<u>57,180</u>	Total included in Debtors	<u>47,433</u>	<u>60,078</u>
Borrowing				
625,695	67,991	Financial liabilities at amortised costs	665,161	52,959
<u>625,695</u>	<u>67,991</u>	Total Borrowing	<u>665,161</u>	<u>52,959</u>
Other long term liabilities				
129,373	-	PFI and finance lease liabilities	126,143	-
<u>289,466</u>	<u>-</u>	Other long term liabilities	<u>319,943</u>	<u>-</u>
418,839	-	Total other long term liabilities	446,086	
Creditors				
-	100,275	Financial liabilities at contract amount	-	101,340
<u>-</u>	<u>100,275</u>	Total creditors	<u>-</u>	<u>101,340</u>

Material soft loans made by the Council

Landbank fund loans

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

2011/12 £000		2012/13 £000
11,338	Balance at 1 April 2012	10,003
1,430	Nominal value of new loans made in the year	801
(1,558)	Loans repaid in the year	(434)
(207)	Loans written off in the year	(19)
625	Fair value adjustment re interest uncharged in year	156
<u>(1,625)</u>	Grants and feasibility studies	<u>-</u>
<u>10,003</u>	Balance at 31 March 2013	<u>10,507</u>

Loans to Inverness Airport Business Park

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

2011/12		2012/13
£000		£000
908	Balance at 1 April 2012	946
(19)	Increase in discounted amount	-
57	Fair value adjustment re interest uncharged in year	57
<u>946</u>	Balance at 31 March 2013	<u>1,003</u>

Valuation assumptions

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

43. Financial instrument gains and losses

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

Year to 31 March 2013	Financial liabilities	Financial assets	
	Liabilities £000	Loans and receivables £000	Total £000
Interest payable and similar charges	(43,064)	-	(43,064)
Interest and investment income	-	333	333
Net gain/(loss) for year	<u>(43,064)</u>	<u>333</u>	<u>(42,731)</u>

Year to 31 March 2012	Financial liabilities	Financial assets	
	Liabilities £000	Loans and receivables £000	Total £000
Interest payable and similar charges	(41,312)	-	(41,312)
Interest and investment income	-	515	515
Net gain/(loss) for year	<u>(41,312)</u>	<u>515</u>	<u>(40,797)</u>

Fair values of assets and liabilities carried at amortised cost

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

Methods and assumptions in valuation techniques

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

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

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2013 using bid prices were applicable.

The calculations are made using the follow assumptions:

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

The fair values are calculated as follows:

Fair value of liabilities carried at amortised cost

31/03/12			31/03/13	
Carrying Amount	Fair Value		Carrying amount	Fair value
£000	£000		£000	£000
528,350	612,376	PWLB debt	572,480	684,703
121,051	130,365	LOBOs	121,020	134,215
26,086	26,236	Market loans	8,754	8,975
<u>675,487</u>	<u>768,977</u>	Financial liabilities	<u>702,254</u>	<u>827,893</u>

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

Fair value of assets carried at amortised cost

31/03/12			31/03/13	
Carrying Amount	Fair Value		Carrying amount	Fair value
£000	£000		£000	£000
51,271	51,271	Call accounts	70,682	70,682
18,777	18,830	Fixed term deposits	5,005	5,024
38,442	38,442	Long term debtors	42,428	42,428
<u>108,490</u>	<u>108,543</u>	Financial assets	<u>118,115</u>	<u>118,134</u>

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

44. Nature and extent of risks arising from financial instruments

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

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

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

Credit risk

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

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

Debtors

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

31/03/12		31/03/13
£000		£000
5,145	Less than three months	7,197
564	Three to six months	636
1,001	Six to twelve months	1,031
<u>3,015</u>	More than twelve months	<u>3,608</u>
<u>9,725</u>	Total	<u>12,472</u>

Market risk

Interest rate risk

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

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

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

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

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

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According to the assessment strategy, at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Increase in interest payable on variable rate borrowings	1,011
Increase in interest receivable on variable rate investments	<u>(566)</u>
Impact on Income and Expenditure Account	<u>445</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>56</u>

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

Price risk

The Council does not invest in equity shares.

Foreign exchange risk

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

Liquidity Risk

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

The maturity structure of financial liabilities is as follows:

31/03/12 £000	Loans outstanding	31/03/13 £000
528,350	Public Works Loans Board	572,481
121,051	Market debt / LOBOs	121,020
26,086	Temporary borrowing	<u>8,754</u>
<u>675,487</u>	Total	<u>702,255</u>
35,472	Less than 1 year	35,891
17,751	Between 1 and 2 years	10,162
32,996	Between 2 and 5 years	43,211
105,627	Between 5 and 10 years	119,877
483,641	More than 10 years	<u>493,114</u>
<u>675,487</u>	Total	<u>702,255</u>

45. Events after the Balance Sheet date

The Statement of Accounts was issued by the Director of Finance on 26 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 financial statements have been adjusted in all material respects.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

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

2011/12 £000		2012/13	
		£000	£000
	Income		
(42,950)	Dwelling rents (gross)	(43,679)	
(824)	Non-dwelling rents (gross)	(847)	
(335)	Other income	(757)	
(44,109)			(45,283)
	Expenditure		
15,936	Repairs and maintenance	15,514	
8,897	Supervision and management	9,971	
13,313	Depreciation and impairment of non-current assets	12,852	
1,153	Other expenditure	1,311	
39,299			39,648
	Net income from HRA services as included in Council Comprehensive Income and Expenditure Statement		(5,635)
273	HRA share of corporate and democratic core	205	
52	HRA share of non-distributed costs	115	
325			320
(4,485)	Net expenditure/income from HRA services		(5,315)
	HRA share of operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement		
834	Gain on disposal of fixed assets	432	
7,354	Interest payable and similar charges	7,616	
(443)	Amortisation of premiums and discounts	(448)	
(79)	Interest and investment income	(69)	
(226)	Pension interest cost and expected return on pension assets	136	
7,440			7,667
2,955	Deficit on HRA services		2,352

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2011/12 £000		2012/13 £000	£000
(7,524)	Balance on HRA at 1 April 2012		(6,804)
2,955	Deficit for the year on HRA Income and Expenditure Statement		2,352
	Adjustments between accounting basis and funding basis under statute		
(834)	Gain on sale of HRA non current assets	(432)	
5,141	Capital expenditure funded by the HRA	6,403	
(14)	Movement in employee benefits accrual	(6)	
4,293			5,965
	Transfer to/(from) the Capital Adjustment Account		
(13,313)	- Depreciation and impairment	(12,852)	
6,327	- repayment of debt	6,181	
(6,986)			(6,671)
232	HRA share of contributions to/(from) the Pensions Reserve		(517)
443	HRA share of transfer from the Financial Instruments Adjustment Account		448
336	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		(227)
(553)	Transfer from the capital fund		(1,350)
(6,804)	Balance on HRA at 31 March 2013		(6,804)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/12 £000		31/03/13 £000
1,179	Current tenants	1,295
1,252	Former tenants	1,080
<u>2,431</u>	Total	<u>2,375</u>

2. Uncollectable rent voids

Total uncollectable rent voids of £0.832m (2011/12 £0.992m) have been netted off against rental income

3. Impairment of debtors

In 2012/13 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/12 £000		31/03/13 £000
1,879	Rent arrears	1,721
262	Sundry debts	375
<u>2,141</u>		<u>2,096</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/12 Number	Size	31/03/13 Number
240	1 apartment	241
3,294	2 apartment	3,298
5,469	3 apartment	5,495
4,124	4 apartment	4,119
354	5 apartment	351
28	6 apartment	27
-	7 apartment	-
1	8 apartment	2
1	10 apartment	1
<u>13,511</u>		<u>13,534</u>

COUNCIL TAX

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

2011/12 £000		2012/13 £000
126,379	Gross council tax levied and contributions in lieu	127,610
	Deduct	
15	Council tax benefits (net of government grant)	2
(14,610)	Other discounts and reductions	(14,643)
(2,940)	Write off uncollectible debts and allowance for impairment	(2,984)
<u>1,303</u>	<u>Adjustments to previous years' community charge and council tax</u>	<u>731</u>
<u>110,147</u>	Net Council Tax income per the Comprehensive Income and Expenditure Statement	<u>110,716</u>

Calculation of the Council Tax base 2012/13

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents	
A (dbr)	-	-	38	(4)	-	34	5/9	19	
A	19,580	(1,097)	67	(2,415)	(470)	15,665	6/9	10,443	
B	22,901	(958)	38	(2,359)	(528)	19,094	7/9	14,851	
C	22,444	(716)	(15)	(1,961)	(667)	19,085	8/9	16,964	
D	17,532	(359)	49	(1,190)	(547)	15,485	9/9	15,485	
E	17,290	(253)	(86)	(914)	(480)	15,557	11/9	19,014	
F	8,337	(117)	(50)	(319)	(210)	7,641	13/9	11,037	
G	4,001	(46)	(39)	(124)	(149)	3,643	15/9	6,072	
H	322	(11)	(2)	(5)	(40)	264	18/9	529	
Total	112,407	(3,557)	-	(9,291)	(3,091)	96,468	-	94,414	
								Contributions in lieu	167
								Provision for non collection (3%)	(2,837)
								Council tax base	91,744

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

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Dwellings fall within a valuation band between A to H which is determined by the Assessor. The council tax charge is calculated using the council tax base i.e. Band D equivalents. This value is then increased or decreased depending on the band. Based on the council tax base available to Highland Council the band D charge for 2012/13 was £1,163.00.

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

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

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

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

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

Highland Council Tax charges for 2012/13

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

NON-DOMESTIC RATE ACCOUNT

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

2011/12 £000		2012/13 £000
128,985	Gross rates levied and contributions in lieu	139,132
	Deduct:	
(26,158)	Relief's and other deductions	(29,158)
(14)	Payment of interest	(28)
(1,454)	Write-off of uncollectible debts and allowance for impairment	(820)
101,359	Net Non-Domestic Rate Income	109,126
2,726	Adjustment to previous years' national Non-Domestic rates	(1,373)
-	Non-Domestic Rate Income retained by Council (BRIS)	(1,300)
104,085	Contribution to Non-Domestic Rate Pool	106,453
95,372	Distribution from Non-Domestic Rate Pool	106,091
-	Non-Domestic Rate Income retained by Council (BRIS)	1,300
(608)	Discretionary relief costs not funded by pool	(687)
82	Adjustment for years prior to introduction of pool	13
94,846	Non-Domestic Rate Income credited to the Comprehensive Income and Expenditure Statement	106,717

Net Rateable Value Calculation

The amount paid for NNDR is determined by the rateable value placed on the property by the Assessor multiplied by the rate per pound, which is determined each year by the Scottish Government. The NNDR poundage rate set by the Scottish Government for 2012/13 was 45p on rateable value equal to or less than £35,000 and 45.8p on rateable value greater than £35,000. In addition, large retail properties with a Rateable Value of £300,000 or more which sell both alcohol and tobacco are required to pay a Public Health Supplement of 9.3p.

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

Highland Council Rateable Values

1 April 2012			1 April 2013	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,600	63,361	Shops	2,635	65,501
872	19,077	Public houses and hotels	883	19,508
1,679	28,127	Offices	1,726	27,970
2,659	39,698	Industrial subjects	2,661	39,962
4,457	20,054	Leisure, entertainment, caravans and holiday sites	4,694	20,350
361	4,863	Garages and petrol stations	357	4,738
1,004	21,962	Cultural, sporting subjects, education and training	1,026	22,277
1,160	14,158	Public service subjects	1,160	14,345
2,043	90,408	Miscellaneous	2,037	89,085
16,835	301,708	Total	17,179	303,736

COMMON GOOD FUNDS ACCOUNTS

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

Accounting Policies

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

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

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

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2012/13

MOVEMENT IN RESERVES STATEMENT 2012/13	Capital Funds £000	Revenue Funds £000	Total Usable Reserves £000	Unusable Reserves	Total Reserves £000
Balance at 31 March 2012 brought forward	3,593	6,624	10,217	34,622	44,839
Movement in reserves 2012/13					
Deficit on operating activities	-	(59)	(59)	-	(59)
Other Comprehensive Expenditure and Income	-	-	-	-	-
Total Comprehensive Expenditure and Income	-	(59)	(59)	-	(59)
Increase in 2012/13 before transfers	-	(59)	(59)	-	(59)
Transfers (to)/from other reserves	1,310	(379)	931	(931)	-
Balance at 31 March 2013 carried forward	4,903	6,186	11,089	33,691	44,780

COMMON GOOD FUNDS STATEMENT OF ACCOUNTS 2012/13

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
3,270	(2,174)	1,096	Inverness	2,655	(1,897)	758
59	(52)	7	Nairn	62	(71)	(9)
54	(257)	(203)	Tain	38	(16)	22
4	(22)	(18)	Dornoch	20	(22)	(2)
11	(13)	(2)	Dingwall	-	(15)	(15)
13	(13)	-	Fortrose	8	(11)	(3)
4	(4)	-	Cromarty	6	(4)	2
6	(3)	3	Invergordon	-	(3)	(3)
3,421	(2,538)	883	Cost of services	2,789	(2,039)	750
		(2,041)	Financing and investment income and expenditure (note 1)			(691)
		(1,158)	(Surplus)/deficit on provision of services			59
		(61)	(Surplus)/deficit on revaluation of non current assets			-
		(61)	Other comprehensive income and expenditure			-
		(1,219)	Total comprehensive income and expenditure			59

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 MARCH 2013**

31/03/12 £000		Notes	31/03/13 £000
	Non Current Assets	2	
220	Property, Plant and Equipment		211
2,123	Heritage Assets		2,123
32,592	Investment Properties		31,420
28	Intangible Assets	3	27
8,859	Investments	4	10,348
43,822			44,129
	Current Assets		
1,000	Short term investments		-
921	Cash and cash equivalents	5	1,484
93	Sundry debtors		97
2,014			1,581
	Current Liabilities		
(263)	Sundry creditors		(196)
1,751	Net current assets		1,385
(734)	Long term liabilities		(734)
44,839	Net assets		44,780
	Reserves:		
	Usable Reserves	6	
6,624	Revenue Funds		6,186
3,593	Capital Funds		4,903
10,217			11,089
	Unusable Reserves	7	
34,344	Revaluation Reserve		33,413
248	Donated Assets Account		248
30	Capital Adjustment Account		30
34,622			33,691
44,839	Total Reserves		44,780

COMMON GOOD FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

CASH FLOW STATEMENT

31/03/12 £000		31/03/13 £000
1,158	Net surplus/(deficit) on the provision of services	(59)
<u>(2,203)</u>	Adjust net surplus/(deficit) on the provision of services for non-cash movements	<u>(628)</u>
(1,045)	Net cash flow from operating activities	(687)
(1,000)	Investing activities	1,250
2,966	Cash and cash equivalents at 1 April 2012	921
<u>921</u>	Cash and cash equivalents at 31 March 2013	<u>1,484</u>

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

2011/12 £000		2012/13 £000
(216)	Interest and investment income and expenditure	(314)
(1,573)	(Surplus)/deficit on revaluation of investment properties	931
(252)	Surplus on revaluation of investments	(1,310)
-	Gain on sale of assets	(8)
-	Depreciation and amortisation charges	10
<u>(2,041)</u>		<u>(691)</u>

2. Non current assets

Movements in 2012/13

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 1 April 2012	32,592	2,123	220	34,935
Revaluations	(931)	-	-	(931)
Disposals	(241)			(241)
As at 31 March 2013	<u>31,420</u>	<u>2,123</u>	<u>220</u>	<u>33,763</u>
Accumulated depreciations as at 1 April 2012	-	-	-	-
Depreciation charge	-	-	9	9
As at 31 March 2013	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
Net book value				
As at 31 March 2013	<u>31,420</u>	<u>2,123</u>	<u>211</u>	<u>33,754</u>
As at 31 March 2012	<u>32,592</u>	<u>2,123</u>	<u>220</u>	<u>34,935</u>

Robert Smail (MRICS), Property Manager, Housing and Property Services, Highland Council carried out the asset valuations of investment properties as at 1 April 2012 in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors.

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

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

3. Intangible assets

2011/12		Fishing Licence
£000		£000
-	As at 1 April 2012	28
28	Additions	-
-	Amortisation	(1)
<u>28</u>	As at 31 March 2013	<u>27</u>

4. Long Term Investments

31/03/12			31/03/13	
Cost	Valuation		Cost	Valuation
£000	£000		£000	£000
5,887	8,853	Inverness - Managed portfolio	6,083	10,342
6	6	Nairn	6	6
<u>5,893</u>	<u>8,859</u>		<u>6,089</u>	<u>10,348</u>

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

31/03/12			31/03/13	
Cost	Value		Cost	Value
£000	£000		£000	£000
-	-	Property	135	41
4,203	7,115	Equities	4,267	8,485
1,269	1,323	Bonds	1,269	1,404
415	415	Cash	412	412
<u>5,887</u>	<u>8,853</u>	Total	<u>6,083</u>	<u>10,342</u>

5. Cash and cash equivalents

31/03/12		31/03/13
£000		£000
<u>921</u>	Balance with Highland Council Loans Fund	<u>1,484</u>

COMMON GOOD FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

6. Usable Reserves**Revenue Funds**

Fund	Balance at 1/04/12 £000	Movement 2012/13 £000	Balance at 31/03/13 £000
Inverness	6,170	(528)	5,642
Nairn *	(264)	94	(170)
Tain	287	(30)	257
Dornoch	209	3	212
Dingwall	94	16	110
Fortrose	72	5	77
Cromarty	8	(2)	6
Invergordon	48	4	52
Total	6,624	(438)	6,186

* During financial year 2013/14 there will be a review of the funding position of Nairn Common Good Fund

Capital Funds

Fund	Balance at 1/04/12 £000	Revaluations 2012/13 £000	Balance at 31/03/13 £000
Inverness	2,727	1,310	4,037
Nairn	217	-	217
Tain	460	-	460
Dornoch	56	-	56
Dingwall	31	-	31
Fortrose	84	-	84
Cromarty	8	-	8
Invergordon	10	-	10
Total	3,593	1,310	4,903

7. Unusable Reserves**Revaluation Reserve**

Fund	Balance at 1/04/12 £000	Revaluations 2012/13 £000	Balance at 31/03/13 £000
Inverness	23,779	(512)	23,267
Nairn	9,670	(306)	9,364
Tain	53	(50)	3
Dornoch	-	-	-
Dingwall	198	(56)	142
Fortrose	235	(20)	215
Cromarty	49	(5)	44
Invergordon	360	18	378
Total	34,344	(931)	33,413

**CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013**

2011/12				2012/13		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(2)	(52)	(114)	Income	(2)	(127)	(108)
1	42	276	Expenditure	1	32	218
<u>(1)</u>	<u>(10)</u>	<u>162</u>	(Surplus)/deficit for the year	<u>(1)</u>	<u>(95)</u>	<u>110</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2012				31 March 2013		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
23	964	1,164	Non current assets	23	965	1,179
			Investment at cost			
169	1,424	886	Current assets	170	1,506	761
-	-	-	Debtor - Highland Council Loans Fund	-	12	-
<u>192</u>	<u>2,388</u>	<u>2,050</u>	Other debtors	<u>193</u>	<u>2,483</u>	<u>1,940</u>
			Net assets			
89	1,866	731	Capital funds	89	1,866	746
103	522	1,319	Revenue funds	104	617	1,194
<u>192</u>	<u>2,388</u>	<u>2,050</u>	Total funds	<u>193</u>	<u>2,483</u>	<u>1,940</u>

TRUST FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

CHARITABLE TRUSTS

Highland Council administers eighty registered Scottish Charities which are for the benefit of various specific causes. At 31 March 2013 the balances and investments held are as follows:

31 March 2012			31 March 2013		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
-	-	Beatrice Oilfield Trust – Nairn	1768	-	-
917	-	John Rutherford Trust for Poor of Kildonan	3192	923	-
-	-	John Robert Campbell Bequest for the Poor of Parish of Lairg	4447	-	-
517	500	Miss E Kemp bequest for Poor of Rosemarkie	4881	526	500
878	155	Grantown War Memorial Fund	5071	882	155
7,906	-	West Coast of Ross-Shire (Mainland) Distress Fund	7158	7,652	-
117	101	John Martin Trust for Christmas dinner for the poor of Invergordon	8916	113	101
77	-	McCulloch Bequest for the Poor of Durness	8950	78	-
737	-	John Couper Bequest for Poor of Helmsdale	9516	742	-
-	-	Miss Margaret A Ross Charity Fund	10505	-	-
662	39	Coull Mortification	10813	668	39
-	-	James Asher's Charitable Trust	11444	-	-
-	-	William Murray Morgan Caithness Village Amenities Fund	12300	-	-
4,521	944	Donald Cameron of Erracht Bequest for Poor of Kilmallie	12410	4,588	944
2,255	-	John Rose Troup Charitable Trust	12475	2,268	-
594	-	Grigor Bequest for Confirmed Invalids	12682	598	-
2,405	717	Duncan Cameron Trust for Poor of Abernethy	13277	2,442	717
2,795	-	Grigor Bequest for Poor of Parish of Cawdor	16232	2,811	-
-	-	Miss Margaret A MacLeod Bequest	16326	-	-
-	-	Hugh Wilson Trust	16486	-	-
17,259	-	Highland Heart Fund	17126	17,360	-
-	-	Miss Magdalene Duff Fraser Mortification	18287	-	-
-	-	Jonathan Anderson Mortification for Poor	18296	-	-
616	589	Frederick Klein Mortification	18297	644	589

TRUST FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

31 March 2012			31 March 2013		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
-	-	Robert Fraser Mortification	18298	-	-
-	-	Thomas Fraser Mortification	18299	-	-
-	-	Evan Baillie Mortification	18300	-	-
-	-	John Burnett Mortification	18301	-	-
-	-	Mrs Isabella Gollan Mortification	18302	-	-
-	-	Mrs Martha Gibson Mortification	18303	-	-
-	-	Robert Smith Mortification	18305	-	-
525	505	Mrs Jane Masson Bequest	18306	525	505
-	-	Dr John Mackintosh Bequest	18307	-	-
-	-	William Macgregor Bequest	18308	-	-
980	1,009	F W Grant Bequest	18309	987	1,009
-	-	William Galloway Macdonald Bequest	18310	-	-
-	-	George Melvin Bequest	18311	-	-
-	-	Louis Ormond Fyvie Bequest	18312	-	-
-	-	George Wilson Barron Bequest	18313	-	-
871	-	William Davidson Bequest	18723	876	-
2,813	1,492	Miss Adeleine Florence Henderson Bequests	18724	2,857	1,493
1,135	800	William Murray Bequest for Poor of Wick	18725	1,165	800
14,892	283	William Murray Bequest for Wick Library	18726	14,987	283
740	442	Murray (Olig) Bequest	18727	618	442
419	359	Oswald (Dunnet) Bequest	18728	376	359
1,070	1,050	Davidson - Cumming Bequest	18729	1,105	1,050
224	105	Oswald (Bower) Mortification	18730	225	105
9,288	2,833	Alexander Wares Bequest for Poor	18731	9,363	2,834
13,527	2,350	George Swanson Trust	18732	13,592	2,350
1,553	503	James Cormack Bequest	18733	1,577	503
813	-	John Sutherland Poor Coopers Fund	18734	818	-

TRUST FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

31 March 2012			31 March 2013		
Fund Balance	Investments at cost	Charity	Scottish Charity Number	Fund Balance	Investments at cost
£	£			£	£
335	137	John Jacobus Harper Trust	18735	336	137
160	-	Thomas L Rettie Bequest for Poor	18736	161	-
53	-	Jane Cormack Bequest	18737	53	-
209	-	John Sutherland (Fish Curer) Poor Fund	18738	210	-
1,997	-	Sir Josiah H Symon Poor Fund	18739	2,009	-
-	-	John Miller Bequest	18740	-	-
785	300	Miss L E M Rose Bequest	18995	803	300
805	800	Nairnshire Boot Fund	18997	841	800
12,614	5,000	Miss Emma M Fraser Bequest for the Poor of Nairn	18999	12,721	5,000
2,551	-	Knockie Trust Fund	19557	2,566	-
390	95	Duncan MacBean Bequest	19558	529	95
660	90	Kennedy Trust for Poor	19559	667	90
310	300	John Fraser Bequest	19561	316	300
192	-	Hugh Leslie Bequest	19562	192	-
131	12	George Murray Senior Coal Fund	19563	133	12
364	-	David Thomson Bequest for poor	19564	366	-
364	-	Alex Thomson Bequest for poor	19565	366	-
227	-	David Thomson Bequest for Ex-Seaforth Highlanders	19566	228	-
110	46	Ronald Ross Bequest	19567	108	46
-	-	D Duff Bequest	19568	-	-
184	-	George MacLeod Bequest	19569	185	-
298	19	Tain War Memorial Fund	19570	301	19
1,822	500	Dr Donald Grant Legacy	19694	1,881	500
487	200	George Harvey Trust	19695	497	200
26,432	1,171	Miss Margaret Charlotte Stuart Legacy	19696	26,513	1,171
-	-	Earl of Seafield Bequest for Poor in portions of Cromdale Parish	19697	-	-
-	-	Highland Council Charitable Trusts	25079	-	-
39,485	-	Gairloch High School Howard Doris Fund	28254	39,705	-
10,326	-	Highland Regional Children's Panel 20th Anniversary Trust Fund	28500	10,386	-
<u>192,397</u>	<u>23,446</u>	Total Charitable Trusts		<u>193,439</u>	<u>23,448</u>

TRUST FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

EDUCATIONAL TRUST FUNDS

Highland Council administers 46 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2013 the balances and investments held are as follows:

31 March 2012				31 March 2013		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
111	29	29	Caithness Educational Trust	170	29	29
821	793	-	Duncraig Endowment	818	793	793
20	1	2	George Kerr Bequest	20	1	2
28	-	-	Howard Doris fund – Plockton High School	29	-	-
239	45	319	Inverness Royal Academy Educational Trust	252	45	319
211	52	447	Inverness-shire Educational Trust	222	52	497
132	-	-	Manson Bequest – Keiss	134	-	-
126	-	-	Manson Bequest – Nairn and Ardclach	127	-	-
14	-	-	Miss B G Angus Executory	14	-	-
479	37	1,407	Ross & Cromarty Educational Trust	486	37	1,426
99	-	82	Sutherland Educational Trust	100	-	82
108	7	8	Other Educational Trusts	111	8	7
<u>2,388</u>	<u>964</u>	<u>2,294</u>	Total Educational Trusts	<u>2,483</u>	<u>965</u>	<u>3,155</u>

TRUST FUNDS UNAUDITED STATEMENT OF ACCOUNTS 2012/13

OTHER TRUST FUNDS

Highland Council administers other trust funds which are for the benefit of various specific causes and are administered in accordance with the terms of the individual bequests. At 31 March 2013 the balances and investments held are as follows:

31 March 2012				31 March 2013		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
755	742	1,142	Inverness Burial Grounds Fund	760	749	1,331
416	385	544	Inverness Benevolent Funds	432	393	640
199	-	-	Social Work Amenity Funds	75	-	-
151	-	-	Inverness – Other Trust Funds	151	-	-
7	2	3	Badenoch and Strathspey Trust Funds	7	2	3
185	20	18	Caithness Trust Funds	165	20	18
81	2	2	Lochaber Trust Funds	91	2	2
79	3	3	Nairn Trust Funds	81	3	3
147	9	8	Ross and Cromarty Trust Funds	148	9	8
5	1	-	Skye and Lochalsh Trust Funds	5	1	-
25	-	-	Sutherland Trust Funds	25	-	-
<u>2,050</u>	<u>1,164</u>	<u>1,720</u>	Total other trust funds	<u>1,940</u>	<u>1,179</u>	<u>2,005</u>

GROUP ACCOUNTS

GROUP STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

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

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

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

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

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

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

Highland Council

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

Inverness and Nairn Common Good Funds

- No significant weaknesses were identified

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Fire Board

- No weaknesses were identified.

Northern Joint Police Board

- No weaknesses were identified.

Highland and Islands Transport Partnership

- No weaknesses were identified.

High Life Highland

- No significant weaknesses were identified.

Derek Yule B.Com, CPFA, IRRV(Hons)
Director of Finance
26 June 2013

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

GROUP ACCOUNTS

GROUP MOVEMENT IN RESERVES STATEMENT 2011/12 (RESTATED)

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2011	37,849	7,524	1,229	1,486	1,678	32,532	82,298	803,099	885,397
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services	15,395	(2,955)	-	-	-	-	12,440	-	12,440
Other Comprehensive Income and Expenditure	24	-	-	-	-	437	461	(189,875)	(189,414)
Total Comprehensive Expenditure and income	15,419	(2,955)	-	-	-	437	12,901	(189,875)	(176,974)
Adjustments between accounting basis and funding basis under regulations	(13,353)	1,682	89	-	-	-	(11,582)	11,582	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	2,066	(1,273)	89	-	-	437	1,319	(178,293)	(176,974)
Transfers to/from other statutory reserves	(1,522)	553	-	179	548	212	(30)	30	-
Increase/(decrease) in 2011/12	544	(720)	89	179	548	649	1,289	(178,263)	(176,974)
Balance at 31 March 2012 carried forward	38,393	6,804	1,318	1,665	2,226	33,181	83,587	624,836	708,423

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

GROUP MOVEMENT IN RESERVES STATEMENT 2012/13

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2012	38,393	6,804	1,318	1,665	2,226	33,181	83,587	624,836	708,423
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services	29,892	(2,352)	-	-	-	-	27,540	-	27,540
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(53,910)	(53,910)
Total Comprehensive Expenditure and income	29,892	(2,352)	-	-	-	-	27,540	(53,910)	(26,370)
Adjustments between accounting basis and funding basis under regulations	(25,388)	1,002	199	-	-	-	(24,187)	24,187	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	4,504	(1,350)	199	-	-	-	3,353	(29,723)	(26,370)
Transfers to/from other statutory reserves	(2,946)	1,350	-	2	168	933	(493)	493	-
Increase/(decrease) in 2012/13	1,558	-	199	2	168	933	2,860	(29,230)	(26,370)
Balance at 31 March 2013 carried forward	39,951	6,804	1,517	1,667	2,394	34,114	86,447	595,606	682,053

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12 (Restated)				2012/13		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
265,461	(11,203)	254,258	Education Services	261,172	(10,716)	250,456
82,068	(60,576)	21,492	Other Housing Services	75,859	(60,476)	15,383
40,290	(45,100)	(4,810)	Council Housing - Housing Revenue Account	40,591	(46,226)	(5,635)
37,544	(5,957)	31,587	Cultural and Related Services	15,972	(1,462)	14,510
46,319	(6,010)	40,309	Environmental Services	45,311	(5,843)	39,468
50,503	(11,262)	39,241	Roads and Transport Services	54,362	(7,965)	46,397
21,186	(12,867)	8,319	Planning and Development Services	20,258	(11,810)	8,448
140,219	(24,739)	115,480	Social Work Services	150,432	(31,544)	118,888
9,325	(7,620)	1,705	Central Services to the Public	7,371	(6,694)	677
19,646	(791)	18,855	Requisitions – Northern Joint Police Board	20,287	(728)	19,559
15,788	-	15,788	Requisitions – Highland and Islands Fire Board	15,617	-	15,617
2,300	-	2,300	Requisitions – Highlands and Western Isles Valuation Joint Board	2,378	-	2,378
89	-	89	Requisitions - HITRANS	89	-	89
11,497	(154)	11,343	Corporate and Democratic Core	10,353	(154)	10,199
6,982	(3,444)	3,538	Non Distributed Costs	5,428	-	5,428
749,217	(189,723)	559,494	Cost of Services	725,480	(183,618)	541,862
		1,447	Operating results subsidiaries			14,113
		7,024	Operating results associates			15,591
		567,965	Cost of Services			571,566
		1,858	Other operating expenditure			262
		34,596	Financing and investment income and expenditure			44,235
		(611,695)	Taxation and non-specific grant income			(627,787)
		(7,276)	Deficit/(Surplus) on provision of services			(11,724)
		(7,343)	Surplus on revaluation of non-current assets			(2,063)
		191,593	Actuarial losses/(gains) on pension assets and liabilities			40,157
		184,250	Other comprehensive income and expenditure			38,094
		176,974	Total Comprehensive Income and Expenditure			26,370

GROUP BALANCE SHEET

31/03/12 (Restated) £000		31/03/13 £000
2,021,652	Property, plant & equipment	2,071,058
1,698	Heritage Assets	1,698
240	Intangible assets	160
12,833	Long term investments	16,356
(275,262)	Investments in associates and joint ventures	(300,075)
<u>37,708</u>	Long term debtors (net of impairment)	<u>41,693</u>
1,798,869	Long term assets	1,830,890
4,050	Short term investments	-
6,833	Inventories	5,592
50,885	Short term debtors	62,988
57,299	Cash and cash equivalents	56,951
<u>2,181</u>	Assets held for sale	<u>1,959</u>
121,248	Current assets	127,490
(68,094)	Short term borrowing	(52,505)
(94,529)	Short term creditors	(101,658)
<u>(4,361)</u>	Provisions	<u>(1,076)</u>
(166,984)	Current liabilities	(155,239)
(625,695)	Long term borrowing	(665,161)
<u>(419,015)</u>	Other long term liabilities	<u>(455,927)</u>
(1,044,710)	Long term liabilities	(1,121,088)
<u>708,423</u>	Net assets	<u>682,053</u>
	Financed by:	
	Reserves	
83,587	Usable reserves	86,447
<u>624,836</u>	Unusable reserves	<u>595,606</u>
<u>708,423</u>		<u>682,053</u>

The unaudited Statement of Accounts was issued on 26 June 2013

Derek Yule B.Com, CPFA, IRRV(Hons)
 Director of Finance
 26 June 2013

GROUP CASH FLOW STATEMENT

2011/12 (Restated) £000		2012/13 £000
7,452	Net surplus on the provision of services	11,724
78,107	Adjust net surplus on provision of services for non-cash movements	78,844
(34,416)	Adjust for items included in the net surplus on provision of services that are investing and financing activities	(44,009)
<u>51,143</u>	Net cash inflow from operating activities	<u>46,559</u>
(98,924)	Investing activities	(116,392)
61,063	Financing activities	69,485
<u>13,282</u>	Net increase/(decrease) in cash and cash equivalents	<u>(348)</u>
44,017	Cash and cash equivalents at 1 April 2012	57,299
<u><u>57,299</u></u>	Cash and cash equivalents at 31 March 2013	<u><u>56,951</u></u>

NOTES TO THE GROUP ACCOUNTS

1. Accounting policies

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

2. Interest in other entities

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

The financial statements in the group accounts are prepared in accordance with the accounting policies set out in the accounting policies starting on page 45.

3. Financial impact of consolidation

By including the associate bodies (details of which are provided in note 4), the effect on the group balance sheet is a reduction in both reserves and net assets of £257.586m. This represents Highland Council's share of the net liabilities in these entities.

4. Group entities

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

Subsidiaries

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

- Inverness Common Good Fund
- Nairn Common Good Fund
- High Life Highland Ltd – a charitable company limited by guarantee. Highland Council is the sole member with its liability limited to £1. The company was incorporated on 8 September 2011 to deliver a range of community learning and leisure services on behalf of The Highland Council. It was granted charitable status on 15 September 2011 and has one wholly owned subsidiary High Life Highland (Trading) CIC whose principal aim is to generate funds to be used by the charity in pursuit of its charitable objectives.

Associates

Highland Council has interests in associates as follows:

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

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

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

From 1 April 2013 the Fire and Police Boards have merged with other Scottish Fire and Police Boards to form single Fire and Police Services for Scotland. As a result Highland and Islands Fire Board and Northern Joint Police Board ceased to exist from 31 March 2013.

THE HIGHLAND COUNCIL UNAUDITED STATEMENT OF ACCOUNTS 2012/13

The financial results of the Joint Boards for 2012/13 were as follows:

Results for the year	Surplus on provision of services £000	Net liabilities £000
Highland and Islands Fire Board	4,468	(65,681)
Northern Joint Police Board	18,748	(379,024)
Highland and Western Isles Joint Valuation Board	130	(4,265)
Highland and Islands Transport Partnership	6	(163)
	<u>23,352</u>	<u>(449,133)</u>

Group share	%	Surplus on provision of services £000	Net liabilities £000
Highland and Islands Fire Board	66.7	2,980	(43,809)
Northern Joint Police Board	66.7	12,505	(252,810)
Highland and Western Isles Joint Valuation Board	80.0	104	(3,412)
Highland and Islands Transport Partnership	27.3	2	(44)
		<u>15,591</u>	<u>(300,075)</u>

5. Non material interest in other entities

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

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

6. Events after the Balance Sheet date

The Unaudited Statement of Accounts was issued by the Director of Finance on 26 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 financial statements have been adjusted in all material respects.