

**The Highlands and Islands**

**Transport Partnership**

**Annual Accounts**

**2015-2016**

## CONTENTS

MANAGEMENT COMMENTARY .....	3
STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS.....	10
ANNUAL GOVERNANCE STATEMENT .....	11
<b><u>FINANCIAL STATEMENTS</u></b>	
REMUNERATION REPORT .....	14
MOVEMENTS IN RESERVES STATEMENT 2015/16 .....	17
MOVEMENTS IN RESERVES STATEMENT 2014/15 .....	18
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT .....	19
BALANCE SHEET .....	20
CASH FLOW STATEMENT .....	21
ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS.....	22
INDEPENDENT AUDITOR'S REPORT.....	43

## **MANAGEMENT COMMENTARY**

The purpose of the management commentary is to inform all users of the accounts, to help them assess how the Partnership has performed during 2015/16 and understand the year end financial position as at 31 March 2016. In addition, it provides a narrative on the financial outlook for the Partnership during financial year 2016/17 and beyond.

### **Background**

The Highlands and Islands Transport Partnership (HITRANS) was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005, effective 5 December 2005. The power granted to the new statutory body came into force on 1 April 2006.

The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport Scotland Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other Partnerships. These Strategies must take account of future needs and set priorities for transport development and improvement, and will set the framework for investment in strategic transport infrastructure and services for the next 5 to 10 years.

The Strategy was submitted to the Scottish Government in June 2007. The Partnership commenced working towards implementing the Strategy in 2007/08 and has continued every year, and will be ongoing. The Strategy is intended to be a live document, and needs to be reviewed and updated over its 15 year lifespan. The Partnership has prepared a monitoring strategy which includes setting both interim and final targets with progress being identified as part of ongoing reporting processes.

The Partnership comprises The Highland Council, Moray Council, Comhairle Nan Eilean Siar, Orkney Islands Council and Argyll & Bute Council (excluding Helensburgh and Lomond).

The Order states the membership will be made up from one Member from each constituent Local Authority, and two or three Members from external organisations. The Members from external organisations are named individuals appointed under the Nolan Rules and the Minister of Transport being responsible for these initial appointments, and the Partnership itself thereafter.

Voting is weighted with Highland Council having three votes, Moray Council two and the remaining Councils one vote each. External Members are entitled to vote on such matters as the Partnership determines appropriate but not on financial matters.

Operational control of the Partnership is the responsibility of the Partnership Director. The Highland Council provides financial and computing services, and Comhairle Nan Eilean Siar provides administrative, personnel and legal services.

### **Statutory Framework**

The accounting framework defines local authorities as councils constituted under section 2 of the Local Government (Scotland) Act 1994 and the Valuation Joint Boards (Scotland) Order 1995; the Strathclyde Partnership for Transport and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards, the members of which are appointed by local authorities and charities, etc).

In Scotland the local authority accounting framework is enacted as follows:

- the Local Government (Scotland) Act 1973, section 96, requires Scottish authorities to keep accounts; The Local Government in Scotland Act 2003, section 12 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS), the Service Reporting Accounting Code of Practice (SeRCOP) and the Prudential Framework and other statutory guidance issued

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

under section 12 of the 2003 Act, defines proper accounting practices for local authorities in the UK;

- the Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) amended the Local Authority Accounts (Scotland) Regulations 1985 (SI No.1985/267) to require local authorities in Scotland prepare a Remuneration Report as part of the annual statutory accounts; under paragraph 21 of the Local Authority Accounts (Scotland) Regulations 2014 (Finance circular 7/2014) the proper officer is responsible for certifying that the Financial Statements give a true and fair view of the financial position of the local authority and its group for the year then ended. The certification includes a statement to this effect as part of the Statement of Responsibilities and by signing the Balance Sheet. This certification is required before the Annual Accounts are submitted to the appointed auditor. The proper officer re-certifies the audited Annual Accounts after they have been approved for signature by the local authority or a committee of the local authority, in this case the Highlands and Islands Transport Partnership. The proper officer, known as the Treasurer, is the Director of Finance of Highland Council; and
- The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2013.

The Code reiterates the primacy of legislative requirements whereby the overriding principle of public sector accounts is that where an accounting treatment is prescribed by law the legal requirement must be applied.

The overriding requirement of the Code is that the Annual Accounts provide a true and fair view of the financial position and the financial transactions of the Partnership.

### **Review of 2015/16 Developments and Achievements**

The Regional Transport Strategy (RTS) and an associated RTS Delivery Plan set out the key priorities, proposals and interventions required to support successful implementation and realisation of the Strategy's Vision and Objectives. Each year the Partnership approves an annual Business Plan which sets out the Partnership's key delivery priorities for the financial year concerned.

The Business Plan details the projects the Partnership is involved in and an update is reported to the Partnership Board which meets five times per annum. These projects link to the aims of the strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

During 2015/16 the Business Plan set out a wide range of regional, local regional and national scale projects that have been delivered. These include:-

- Ongoing development, monitoring and refresh of the RTS
- CHFS Ferry Service Booking Constraint Monitoring
- Air Service Support – Glasgow to Barra
- Skye Air Service Development
- Orkney Internal Air and Ferry Study / Routes and Services Methodology
- Real Time Passenger Information
- Bus Priority Measures
- Branchliner Project Development
- Inverness Airport (Dalcross) Station Development
- HiTravel Bus Investment Fund Project
- Local Authority Bus Investment Fund Support
- West Lochaber National Smart and Integrated Ticketing Programme Project
- East Inverness Bus Improvement Corridor Project
- Inverness Campus Community Links Project
- Fort William to Ballachulish Community Links Project / National Cycle Network 78 Project

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

- Smarter Choices Smarter Places Project Support
- SPARA 2020 Northern Periphery and Arctic Area Project
- EU Project Development (COMBI and PaTRA)

In addition to the above projects, the Active Travel partnership with Sustrans during 2015/16 has secured a grant allocation of £100,000 per annum from the national Community Links programme to support the development and provision of Active Travel projects across the region during 2015/16. During 2015/16 projects delivered under this programme include:-

- Regional Active Travel Strategy
- Moray Active Travel Hub Feasibility Study
- Police Scotland Partnership on Cycling Safely in Winter
- Cycle Counters
- Cycle Shelters
- Cycle Stands
- Cycle Lockers
- Kirkwall to Stromness Active Travel Route Study
- Inverness Active Travel Gateway
- Inverness Active Travel Map
- Making Cycling Mainstream Support
- Active Travel Facilities at Transport Hubs

In addition to its principal focus on developing and delivering the RTS through work on the Research and Strategy Delivery Programme a significant proportion of staff time and resource was committed to supporting Community Planning engagement and activity in all five partner Council areas. This included the Partnership Director Chairing the Community Planning Officers Group of Moray CPP for a 6 month rotation up to 27<sup>th</sup> January 2016.

In accordance with revised Ministerial direction in 2008, the Regional Transport Strategy is a “high level” strategy. Reporting on the approved RTS Monitoring Framework, consisting of 22 defined Indicators, is reported annually within the Partnership’s Annual Report. A review of the RTS Monitoring Framework is being undertaken alongside review and updating of the RTS which will have a focus of 2016 – 2036 once completed. The RTS will align with all relevant national and local strategies and Action Plans/Programmes, including the recently reviewed the National Transport Strategy. The setting of targets or milestones, which will require to be agreed with partner Councils, Transport Scotland and other relevant delivery partners or agencies, will be considered as part of this process.

Further information on the Partnership’s activity, the Regional Transport Strategy and our Revenue and Strategy Delivery Programme work can be obtained by visiting our website [www.hitrans.org.uk](http://www.hitrans.org.uk).

### **Going Concern**

Note 15 to the Core Statements details the income and expenditure charged to the income and expenditure account under IAS 19 in respect of the Local Government Scheme, based upon assessments provided by the Actuary to the Scheme. The Balance Sheet on Page 20 shows that the Partnership has an excess of liabilities over assets of £0.682m as at 31 March 2016 (31 March 2015 - £0.856m) due to the accrual of pension liabilities and accumulated absences in accordance with IAS 19. A going concern basis of accounting has been adopted in the preparation of the financial statements as future actuarial valuations of the pension scheme will consider the appropriate employer’s rate to meet the commitments of the Scheme. The constituent authorities of the Partnership are required to fund the liabilities of the Partnership as they fall due.

### **Primary Financial Statements**

The Annual Accounts summarise the Highlands and Islands Transport Partnership’s transactions for the year, its year-end position at 31 March 2016 and its cash flows. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

A description of the purpose of the Primary Financial Statements has been included immediately prior to the four statements: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These four Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Partnership and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

The Primary Financial Statements and Notes to the Accounts, including the accounting policies, form the relevant Annual Accounts for the purpose of the auditor's certificate and opinion.

### Financial Performance

The purpose of the Annual Accounts is to present a public statement on the stewardship of funds for the benefit of both members of the Transport Partnership and the public. The Partnership is funded by The Highland Council, Moray Council, Comhairle Nan Eilean Siar, Orkney Islands Council and Argyll & Bute Council (excluding Helensburgh and Lomond). The Partnership normally meets five times a year, with its budget meeting taking place in February. The Partnership's budget is its prime annual planning document and actual expenditure is monitored against it during the year.

The Partnership's financial results for the year, compared against budget, are as shown below. This presentation differs slightly from that shown in the Comprehensive Income and Expenditure Statement which discloses corporate and democratic core costs as required by the Service Reporting Code of Practice (SerCOP). A reconciliation can be found in Note 12.

### Budget Performance Statement For the year ended 31 March 2016

	<b>2015/16</b>		
	Budget £000	Actual £000	Variance £000
Staff costs	353	349	(4)
Property costs	16	24	8
Travel and subsistence costs	36	38	2
Administration and meeting costs	32	38	6
Research and strategy development costs	2,372	1,669	(703)
Publicity costs	10	9	(1)
European projects costs	-	12	12
Support services	40	38	(2)
<b>Gross expenditure</b>	2,859	2,177	(682)
Government grants	(2,464)	(1,679)	785
Other grants	(195)	(118)	77
Other income	-	(187)	(187)
Constituent Council requisitions	(200)	(193)	7
<b>Gross income</b>	(2,859)	(2,177)	682
<b>Net expenditure</b>	-	-	-

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

Overall the budget balanced for the year (2014/15 - £0.000m). The main variations from budget during the year were as follows:

- Property costs are overspent as a result of an increase in rental charges at the Inverness office due to utilisation of further accommodation space. However the costs are in line with the previous year costs. The 2015/16 budget did not reflect the increase in costs.
- Travel, subsistence, administration and meeting costs are overspent. The costs are slightly down on the previous year. The 2015/16 budget did not take account of the increased costs reflecting increase in staff numbers from 5 to 7, and the increased activity on project work throughout the year.
- Included in research and strategy development costs is expenditure of £0.132m for the East Inverness Bus Improvement Corridor Project, £0.755m for Community Links Projects and £0.241m for the Hi-Travel Project. All of these projects are funded by Scottish Government grants. £0.610m of the underspend relates to a Community Links Project, the North Bridge link at the University of the Highlands and Islands Inverness Campus, which was originally timetabled for completion in 2015/16. The project will now be delivered in future years, hopefully commencing in 2016/17. Included in other income is £0.184m of third party contributions to project work.
- The overspend on European projects relates to costs incurred on Smart Peripheral and Remote Airports 2020 (SPARA), part of which will be recovered next financial year from grant due from Europe.
- The budget for other grants relates to a grant from Sustrans for cycling project work. However this sum was unclaimed and is carried forward to 2016/17.

All government grants in respect of 2015/16 were received in the financial year with the exception of the grants from the Bus Investment Fund.

The Partnership's underspend on the 2015/16 revenue budget was £7,000 which the Partnership intend to use as a commitment towards developing a new railway station at Inverness Airport.

### **Balance Sheet**

Highland Council's Loans Fund provides short term borrowing facilities for the Partnership, as and when required. At 31 March 2016 short term borrowing was £0.125m, this was down by £0.035m on the previous year. The movement was due to a fall in both short term debtors and short term liabilities.

Unusable reserves decreased by £0.174m from £0.856m to £0.682m as at 31 March 2016. This was due to a combination of actuarial losses and gains on the Pension scheme liabilities and assets respectively.

### **Reserves**

In Scotland, a local authority may only hold a reserve where there is a statutory power to do so. There are two Acts which provide local authorities with statutory powers to hold a reserve, the 1973 and 1975 Local Government Acts. Section 93 (1) of the Local Government (Scotland) Act 1973 requires all local authorities to have a General Fund into which all revenue income should be paid into and all revenue expenses paid out. As such any difference is held as a General Fund Balance (a reserve). Regional Transport Partnerships (RTP) are classed as local authorities in terms of the enabling legislation, and the Transport (Scotland) Act 2005 extends section 93 of the 1973 Act to RTPs. The Transport (Scotland) Act 2005 requires 'The net expenses of a Transport Partnership for each financial year shall be paid by constituent Local Authorities' and defines net expenses as 'those of its expenses for that year which are not met by grant and other income'. Local authorities are only required to meet the 'net expenses of a Transport Partnership for a financial year'. Therefore it is not possible for the RTP to make a surplus or deficit or have any balance on the General Fund, and therefore the General Fund reserve will always be nil.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

The funding formula for Council contributions was agreed by the Partnership in July 2006. This is based 50% on voting weight and 50% on population share. The population figures have been updated to take account of the 2012 position as shown in the General Register Office for Scotland. The amended percentage share of income to be contributed by each Council for 2015/16 is as follows:

2014/15		Constituent Authority	2015/16	
£000	% share		£000	% share
91	45.5	The Highland Council	<b>91</b>	<b>45.5</b>
46	23.0	Moray Council	<b>46</b>	<b>23.0</b>
27	13.5	Argyll and Bute Council	<b>27</b>	<b>13.5</b>
19	9.5	Comhairle Nan Eilean Siar	<b>19</b>	<b>9.5</b>
17	8.5	Orkney Islands Council	<b>17</b>	<b>8.5</b>
<b>200</b>	<b>100.0</b>	Total	<b>200</b>	<b>100.0</b>

### Statement of Requisitions 2015/16

Constituent Authority	Budget requisition £000	Actual requisition £000	Balance due to constituent authority £000
Highland Council	91	88	(3)
Moray Council	46	44	(2)
Argyll and Bute Council	27	26	(1)
Comhairle Nan Eilean Siar	19	18	(1)
Orkney Islands Council	17	17	0
<b>Total</b>	<b>200</b>	<b>193</b>	<b>(7)</b>

The Partnership is not permitted to hold a balance on the General Fund reserve.

### Retirement Benefits

International Accounting Standard (IAS) 19 has been fully adopted in preparing the accounts of the Partnership. The standard prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

Employees are eligible to join the Local Government Pension Scheme (LGPS), administered by the Highland Council. Note 15 to the Core Statements details the income and expenditure charged to the income and expenditure account under IAS 19 in respect of the Local Government Scheme, based upon assessments provided by the Actuary to the Scheme.

The Balance Sheet on Page 20 shows that the Board has a net pension liability of £0.677m as at 31 March 2016 (31 March 2015 £0.846m) due to the accrual of pension liabilities in accordance with IAS 19.



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Partnership. The liability relates to benefits earned by existing or previous employees up to 31 March 2016.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received in the future. 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.

### **Financial Outlook**

The current economic climate has led to funding pressures within the public sector, consequently placing challenges on the Partnership to continue to deliver the most effective and efficient services possible. Regional Transport Partnerships face substantial real-term reductions in finance in the coming years. Public finance and the funding pressures associated with reductions continue to provide challenges but real progress is being made in developing efficient working practices and models through partnership working. A core aim of the Partnership is to support its partner Local Authorities, Scottish Government and other key public and private sector partners in delivering improved transport services across the Highlands and Islands. The Partnership will continue to work hard to attract external funding and focus on a partnership approach to delivery.

On 5 February 2016, the Partnership's Board agreed a revenue budget for 2016/17, which made provision for £0.453m of core service costs and £0.370m of project expenditure in support of Regional Transport Strategy projects. In recognition of the current financial constraints faced by public sector organisations, the 2016/17 budget makes provision for no increase in constituent council requisitions. Council and Scottish Government funding is confirmed for a period of one year. The Partnership is working towards identifying further cashable efficiency savings for 2017/18 and anticipates savings on a number of budget lines in 2016/17 when compared with 2015/16.

Continuing pressure on public finances makes it very difficult for the Partnership to plan ahead with certainty. There is a significant risk to the level of work that the Partnership will be able to complete should resources reduce. The Partnership will continue to work with its Constituent Authorities, and the Scottish Government, to get clarification of future funding levels. This will allow medium to long term financial plans to be prepared.

### **Events after the Balance Sheet**

Events after the Balance Sheet date until the date of signing the accounts have been taken into consideration.

### **Acknowledgements**

During the 2015/16 financial year the Partnership's financial position has undertaken regular scrutiny and strict budgetary control. We would wish to place on record our appreciation of the excellent work carried out by the Partnership's officers, supported by the officers of Highland Council in the financial management of the Partnership and in the preparation of the 2015/16 Annual Accounts.

Cllr. James Stockan  
Chair of the Partnership Board  
28 September 2016

Derek Yule  
Treasurer  
28 September 2016

Ranald Robertson  
Partnership Director  
28 September 2016

## STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

### Responsibilities of the Partnership

The Partnership 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 Highlands and Islands Transport Partnership that officer is the Treasurer to the Partnership.
- (ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- (iv) Approve the Annual Accounts for signature.

Cllr. James Stockan  
Chair of the Partnership Board  
28 September 2016

### The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Partnership's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Treasurer, has:-

- (i) Selected suitable accounting policies and then applied them consistently
- (ii) Made judgements and estimates that were reasonable and prudent
- (iii) Complied with legislation
- (iv) Complied with the local authority Accounting Code (in so far as it is compatible with legislation)

The Treasurer has also:-

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

I certify that the financial statements give a true and fair view of the financial position of the Partnership at the reporting date and the transactions of the Partnership for the year ended 31 March 2016.

Derek Yule B.Com, FCPFA, IRRV(Hons)  
Treasurer  
28 September 2016

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

The Highlands and Islands Transport Partnership's aim is to develop a transportation system for the region covering Highland, Moray, Comhairle Nan Eilean Siar, Orkney Islands and Argyll & Bute (excluding Helensburgh and Lomond) Council areas, as outlined in the Partnership's Regional Transport Strategy 2008 to 2023.

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, the Partnership is responsible for implementing proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Partnership has approved and adopted a set of governance documents which is consistent with appropriate corporate governance. These documents are reviewed every 2 to 3 years with a further review scheduled for 2016/17.

This statement explains how the Partnership delivers good governance and reviews the effectiveness of these arrangements.

### **The Partnership's Governance Framework**

The governance framework comprises the systems and processes, and cultures and values, by which the Partnership is directed and controlled, and the activities used to engage with and lead the community. It enables it to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance.

Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the area:

- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

The Partnership recognises that good governance is essential to any public body and their arrangements are set out in their business plan. This details the various policies and procedures within the Partnership including their Scheme of Delegation, Contract Standing Orders, Financial Regulations, through to their arrangements for interaction with stakeholders and the Partnership's powers and functions.

A Risk Management Strategy, which sets out the aims and objectives of the Partnership and the management of its risks in the short to medium term, was approved by the Partnership Board in February 2011. Annual updates on the Risk Register are provided to the Board with the most recent information provided on 27 November 2015.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

designed to identify and prioritise the risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2015/16 saw the successful introduction of a new Financial Management System at Highland Council. Over the course of the year a number of issues arose in terms of ensuring data was correct, reconciled timeously, and writing new reports for the year end accounts. All of these issues were resolved by year end and process improvements have been put in place to ensure there is no recurrence in future years. Any of the issues did not have a material impact on the Partnership.

### **Determining the Partnership's Purpose, Its Vision for the Local Area and Intended Outcomes for the Community**

The Partnership aims to develop a transportation system for the region covering Highland, Moray, Comhairle Nan Eilean Siar, Orkney Islands and Argyll & Bute (excluding Helensburgh and Lomond) Council areas, which will enable business to function effectively and provide everyone living in the region with improved access to health care, education, public services and employment opportunities. The vision for achieving this is outlined in the Regional Transport Strategy.

The Annual Research and Strategy Development Programme detail the projects the Partnership is involved in and an update is reported to each Partnership Board. These projects link to the aims of the strategy and the Annual Business Plan provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

### **Review of Effectiveness**

Highlands and Islands Transport Partnership has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

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 managers within the Partnership and The Highland Council. In particular, the internal control 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 the forecasts.

The Treasurer to the Partnership has overall responsibility for Internal Audit in Highlands and Islands Transport Partnership. The Highland Council's Audit and Risk Manager is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance, an annual report is made to the Partnership. The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit (the standards) which came into effect from 1 April 2013 and applies to all internal audit service providers. These Standards have been developed through collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The Audit and Risk Manager prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control.

The review of the effectiveness of the system of internal financial control is informed by:

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

In order to inform the Audit & Risk Manager's annual Statement of Internal Control, work was undertaken to review the Highland Council's financial systems, which are also used to administer HITRANS' transactions. This consisted of:

- A review of the systems of internal control for the financial year 2015/16 consisting of a high level review of the adequacy and effectiveness of HITRANS's system of internal control and targeted testing of key controls. These key controls, summarised below, are examined to confirm that the main financial systems (accounts payable, general ledger, income, payroll and budgetary control) are operating as intended.

Financial procedures and guidance issued to staff;

Segregation of duties;

User access levels and appropriateness;

System backups.

No control issues were identified from the Internal Audit work undertaken. However, some areas for improvement were identified and these will be addressed in the relevant audit report.

Assurance is also provided by individual audits of the Council's main financial systems. For this year this consisted of a review of the debtors system and some HITRANS transactions were examined as part of the audit. No issues were identified in respect of these transactions.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. There were no recommendations made from the 2014/15 work undertaken and there are no outstanding agreed actions.

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that Reasonable Assurance can be placed upon the adequacy and effectiveness of the HITRANS' internal control systems for the year to 31 March 2016.

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

- The Partnership's Financial Regulations recognise the Treasurer as being "responsible for the proper financial administration of the Partnership's affairs, and acts as financial adviser to the Partnership". In addition, the Regulations require:
  - That the Partnership Director ensures that all spending conforms to proper accounting standards and will seek appropriate clarification on such matters from the Treasurer.
  - The accounting procedures, records of the Partnership and Annual Accounts to be prepared in accordance with directions provided by the Treasurer.
  - Reports to the Partnership containing financial implications to be discussed with the Treasurer.
- The Treasurer's staff work closely with the Partnership's staff regarding financial matters.

Ranald Robertson  
Partnership Director  
28 September 2016

Cllr. James Stockan  
Chair  
28 September 2016

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

## REMUNERATION REPORT

All information disclosed in the tables at paragraphs 3 and 4 in the Remuneration Report has been audited by Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

### 1. Appointments

Appointment of the senior employee (Partnership Director) in the Transport Partnership is made by the Partnership Board. The Director is responsible for making any further appointments and ensuring that they are made in accordance with staff structures approved by the Partnership.

### 2. Remuneration Policy

#### 2.1 Senior Employees

There is no national salary mechanism in place for Regional Transport Partnerships. It is up to individual authorities and Transport Partnerships to determine these salaries. As such, the salary of the senior employee (Partnership Director) is set and approved by the Partnership, based on advice received from the Comhairle Nan Eilean Siar's Personnel Service. The current grading of the senior post was agreed by the Partnership in February 2007.

#### 2.2 Senior Councillors

The Chair and Vice-chair of the Highlands and Islands Transport Partnership are remunerated by the Council of which they are a council member.

The remuneration of councillors is regulated by the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of councillors for the purpose of remuneration arrangements, as either the Leader of the Council, The Civic Head, Senior Councillors or Councillors. The regulations are silent on the payment of the Chair and Vice Chair of Regional Transport Partnerships. Therefore, on the basis there is no specific provision in legislation, the Highlands and Islands Transport Partnership does not remunerate the Chair or Vice Chair of the Partnership.

### 3. Remuneration

#### 3.1 Remuneration of Senior Employee of the Partnership

Name and Post Title	Salary, Fees and Allowances	Taxable Expenses	Total Remuneration 2015/16	Total Remuneration 2014/15
	£	£	£	£
Ranald Robertson, Partnership Director	76,341	0	76,341	75,213
<b>Total</b>	<b>76,341</b>	<b>0</b>	<b>76,341</b>	<b>75,213</b>

The table includes any senior employee:

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

### 3.2 Remuneration by Pay Band

Analysis of Employees Earning Over £50,000

	2015/16	2014/15
Salary Band	Number	Number
£50,000-£54,999		
£55,000-£59,999		
£60,000-£64,999		
£65,000-£69,999		
£70,000-£74,999		
£75,000-£79,999	1	1

### 3.3 Senior Councillors and Chairs and Vice Chairs of Regional Transport Partnerships

The following table provides details of the remuneration paid to the Chair and Vice Chair of the Highlands and Islands Transport Partnership.

Councillor Name & Responsibility	2015/16			2014/15	
	Salary, Fees and Allowances	Taxable Expenses	Non-cash expenses & benefits-in-kind	Total Remuneration 2015/16	Total Remuneration 2014/15
	£	£	£	£	£
J Stockan Chair	-	-	4,190	<b>4,190</b>	2,680
<b>Total</b>	-	-	<b>4,190</b>	<b>4,190</b>	2,680

### 3.4 Remuneration Paid to Councillors

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

Type of Remuneration	2015/16	2014/15
	£	£
Salaries		-
Allowances		-
Expenses	4,933	4,010
<b>Total</b>	<b>4,933</b>	<b>4,010</b>

The annual return of Councillors' salaries and expenses for 2015/16 is available for any member of the public to view at all public offices and is also available on the Constituent Councils (Highland Council; Moray Council; Argyll and Bute Council; Comhairle Nan Eilean Siar; and Orkney Islands Council) websites.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**4. Pension Benefits**

The pension entitlement of the senior employee for the year to 31 March 2016 is shown in the table below, together with the contribution made by the Partnership to the Senior Employee's pension during the year

Name and Post Title	In-year pension contributions			Accrued Pension Benefits	
	For year to 31 March 2016	For year to 31 March 2015		As at 31 March 2016	Difference from March 2015
	£	£		£000	£000
Ranald Robertson, Partnership Director	13,512	12,937	<b>Pension Lump Sum</b>	19 29	2 1
<b>Total</b>	<b>13,512</b>	<b>12,937</b>		<b>48</b>	<b>3</b>

The senior employee shown in the table above is a member of the Local Government Pension Scheme (LGPS).

The pension figures shown in the table relate to the benefits that the person has accrued as a consequence of their total local government service.

The employer's contribution rate in 2016/17 is 18.2% of the pensionable salary which is an increase on the 2015/16 contribution rate of 17.8%.

Ranald Robertson  
Partnership Director  
28 September 2016

Cllr. James Stockan  
Chair  
28 September 2016



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**MOVEMENTS IN RESERVES STATEMENT 2015/16**

This statement shows the movement in the year on the different reserves held by the Partnership, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Partnership's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance.

	General Fund £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2015 brought forward</b>	-	-	<b>(856)</b>	<b>(856)</b>
<b>Movement in reserves during 2015/16</b>				
Surplus/(deficit) on provision of services (accounting basis)	(73)	<b>(73)</b>	-	<b>(73)</b>
Other Comprehensive Expenditure and Income	-	-	247	<b>247</b>
<b>Total Comprehensive Expenditure and income</b>	<b>(73)</b>	<b>(73)</b>	<b>247</b>	<b>(174)</b>
Adjustments between accounting basis and funding basis under regulations (note 5)	73	<b>73</b>	(73)	-
<b>Net Increase/(Decrease) before Transfers to Statutory Reserves</b>	-	-	174	<b>174</b>
<b>Balance at 31 March 2016 carried forward</b>	-	-	<b>(682)</b>	<b>(682)</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**MOVEMENTS IN RESERVES STATEMENT 2014/15**

	General Fund £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2014 brought forward</b>	-	-	(241)	(241)
<b>Movement in reserves during 2014/15</b>				
Surplus/(deficit) on provision of services (accounting basis)	(41)	(41)	-	(41)
Other Comprehensive Expenditure and Income	-	-	(574)	(574)
<b>Total Comprehensive Expenditure and income</b>	(41)	(41)	(574)	(615)
Adjustments between accounting basis and funding basis under regulations (note 5)	41	41	(41)	-
<b>Net Increase/(Decrease) before Transfers to Statutory Reserves</b>	-	-	(615)	(615)
<b>Balance at 31 March 2015 carried forward</b>	-	-	(856)	(856)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the accounting cost in the year of providing services in accordance with international financial reporting standards (IFRS), rather than expenditure permitted by regulations which is funded by requisitions from the constituent authorities. The funding position is shown in the Movement in Reserves Statement.

		2014/15			2015/16		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	
£000	£000	£000		£000	£000	£000	
1,416	(1,226)	190	Roads and transport	2,136	(1,941)	195	
78	(39)	39	Corporate and democratic core (note 6)	86	(43)	43	
<b>1,494</b>	<b>(1,265)</b>	<b>229</b>	<b>Cost of services</b>	<b>2,222</b>	<b>(1,984)</b>	<b>238</b>	
		12	Financing and investment income and expenditure (note 7)			28	
		(200)	Taxation and non-specific grant Income (note 8)			(193)	
		<b>41</b>	<b>Surplus/deficit on provision of services (note 12)</b>			<b>73</b>	
		(249)	Return on plan assets (excluding the amount included in net interest expense) (note 15)			19	
		823	Actuarial losses arising on changes in financial assumptions			(266)	
		<b>615</b>	<b>Total comprehensive income and expenditure</b>			<b>(174)</b>	

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**BALANCE SHEET**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Partnership. The net assets of the Partnership (assets less liabilities) are matched by the reserves held by the Partnership. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Partnership may use to provide services, however, legislation dictates the balance is always nil. The second category of reserves is those that the Partnership is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Pension Reserve) and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31/03/15 £000		Notes	31/03/16 £000
341	Short term debtors	18	305
-	Cash and cash equivalents	11	-
<b>341</b>	<b>Current assets</b>		<b>305</b>
<hr/>			
(160)	Short term borrowing	11	(125)
(191)	Short term creditors	19	(185)
<b>(351)</b>	<b>Current liabilities</b>		<b>(310)</b>
<hr/>			
(846)	Other long term liabilities	15	(677)
<b>(846)</b>	<b>Long term liabilities</b>		<b>(677)</b>
<hr/>			
<b>(856)</b>	<b>Net assets</b>		<b>(682)</b>
<hr/>			
(856)	Unusable reserves	10	(682)
<b>(856)</b>	<b>Total reserves</b>		<b>(682)</b>

The unaudited financial statements were issued on 28 June 2016, and the audited accounts were authorised for issue on 28 September 2016.

Derek Yule B.Com, FCPFA, IRRV(Hons)  
Treasurer  
28 September 2016

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**CASH FLOW STATEMENT**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Partnership during the reporting period. The statement shows how the Partnership 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 Partnership are funded by way of requisitions or from the recipients of services provided by the Partnership. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Partnership's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Partnership.

31/03/15 £000		Notes	31/03/16 £000
41	Net (surplus)/deficit on the provision of services	12	73
108	Adjust net (surplus)/deficit on the provision of services for non-cash movements		(38)
(2)	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities		-
<u>147</u>	Net cash flow from operating activities		<u>35</u>
<u>2</u>	Financing activities		<u>-</u>
<u>149</u>			<u>35</u>
<u>(309)</u>	Cash and cash equivalents at the beginning of the year		<u>(160)</u>
<u><u>(160)</u></u>	<b>Cash and cash equivalents at the end of the year</b>	11	<u><u>(125)</u></u>

## ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### General principles

The Annual Accounts summarises the transactions of the Partnership for the 2015/16 financial year and its position at the year end of 31 March 2016. The Partnership is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014 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 2015/16 and the Service Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is historical cost.

#### Accruals of income and expenditure

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

- Revenue from the sale of goods is recognised when the Partnership transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Partnership.
- Revenue from the provision of services is recognised when the Partnership 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 Partnership.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by officers of the Partnership) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### Cash and cash equivalents

The Highland Council loans fund provides all the day to day banking requirements of the Partnership. The balance of £0.125m (2014/15 £0.160m) represents the negative balance in Partnership funds that temporarily sits with the Highland Council loans fund.

## Employee benefits

### Benefits payable during employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, bonuses, paid annual leave and paid sick leave for current employees, are recognised as an expense in the year in which the employees render service to the Partnership. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Accumulating Compensating Absences Adjustment Account in the Movement in Reserves Statement.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Partnership to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Partnership is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Partnership to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movements in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### Post Employment Benefits

Employees of the Partnership are admitted to the Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit final salary scheme.

### Local Government Pension Scheme

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

- The liabilities of the Highland Council Pension Fund attributable to the Partnership are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on the indicative rate of return on the iBOxx AA rated over 15 year corporate bond index)
- The assets of the Highland Council Pension Fund attributable to the Partnership are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

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

Service cost comprising:

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

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

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

Contributions paid to the Highland Council pension fund

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

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

Discretionary Benefits

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

### **Events after the reporting period**

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



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

Adjusting events

- those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts is adjusted to reflect such events

Non-adjusting events

- those that are indicative of conditions that arose after the reporting period – the Annual 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 Annual Accounts.

**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 Partnership when there is reasonable assurance that:

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

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

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

**Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The Partnership does not have any finance leases.

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

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

The Partnership as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### **Property, plant and equipment**

The Partnership does not currently hold fixed assets. Any expenditure on the acquisition or creation of property, plant and equipment will be capitalised on an accruals basis provided it yields benefits to the Partnership and the services that it provides for more than one financial year. A de minimis level of £20,000 has been applied to all asset categories.

### **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 Code of Practice 2015/16 (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 Partnership's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

### **Provisions, Contingent liabilities and Contingent assets**

#### Provisions

Provisions are made where an event has taken place that gives the Partnership 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 Partnership 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 Partnership becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

#### Contingent liabilities

A contingent liability arises where an event has taken place that gives the Partnership 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 Partnership. 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.

#### Contingent assets

A contingent asset arises where an event has taken place that gives the Partnership a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Partnership.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Reserves**

Legislation dictates usable reserves are always nil in respect of Regional Transport Partnerships, however certain reserves are kept to manage the accounting processes for employee benefits and retirement benefits, and are classed as unusable resources for the Partnership – these reserves are explained in note 10 to the accounts.

### **VAT**

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

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

There are no accounting standards relevant to the Annual Accounts of the Partnership which have not been adopted.

### **3. Critical judgements in applying accounting policies**

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

- There is a high degree of uncertainty about future levels of funding for local government and regional transport partnerships. However, the Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the Partnership might need to reduce levels of service provision.

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

The Annual Accounts contains estimated figures that are based on assumptions made by the Partnership 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 only item in the Partnership's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year is the pension liability. The impact of changes in the assumptions used on the pension liability has been assessed by the actuaries and is illustrated in note 15.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

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

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

	General Fund £000	Unusable reserves £000	<b>Total 2015/16 £000</b>
<b>Adjustments involving the Pensions Reserve</b>			
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 (see note 15)	(127)	127	-
Employers' pension contributions and direct payments to pensioners payable in the year	49	(49)	-
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account</b>			
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	5	(5)	-
<b>Total adjustments</b>	<b>(73)</b>	<b>73</b>	<b>-</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

	General Fund £000	Unusable reserves £000	<b>Total 2014/15 £000</b>
<b>Adjustments involving the Pensions Reserve</b>			
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 (see note 15)	(79)	79	-
Employers' pension contributions and direct payments to pensioners payable in the year	42	(42)	-
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account</b>			
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	(4)	4	-
<b>Total adjustments</b>	<b>(41)</b>	<b>41</b>	<b>-</b>

**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 Partnership.

2014/15 Net £000		Expenditure £000	<b>2015/16</b> Income £000	Net £000
10	Democratic representation and management	17	(8)	9
29	Corporate management	69	(35)	34
<u>39</u>	<b>Total</b>	<u>86</u>	<u>(43)</u>	<u>43</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**7. Comprehensive Income and Expenditure Statement – Financing and investment income and expenditure**

2014/15	2015/16
£000	£000
2 Interest payable and similar charges	-
10 Net interest on the net defined benefit pension liability	<b>28</b>
- Interest and investment income	-
<u>12</u>	<u><b>28</b></u>

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

2014/15	2015/16
£000	£000
(200) Requisitions from constituent authorities	<b>(193)</b>
<u>(200)</u>	<u><b>(193)</b></u>

**9. Balance Sheet – usable reserves**

Movements in the Partnership's usable reserves are detailed in the Movement in Reserves Statement and note 5.

**10. Balance Sheet – unusable reserves**

31/3/2015	31/3/2016
£000	£000
846 Pensions reserves (a)	<b>677</b>
Accumulated compensated absences adjustment	
10 account (b)	<b>5</b>
<u>856</u> <b>Total unusable reserves</b>	<u><b>682</b></u>

(a) 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 Partnership 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 Partnership 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 Partnership 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.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

2014/15 £000		2015/16 £000
235	Balance at 1 April	846
(249)	Return on plan assets (excluding the amount included in the net interest expense)	19
823	Actuarial losses arising on changes in financial assumptions	(266)
574		(247)
79	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	127
(42)	Employer's pension contributions and direct payments to pensioners payable in the year	(49)
846	Balance at 31 March	677

(b) Accumulating compensated absences adjustment account

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

2014/15 £000		2015/16 £000
6	Balance at 1 April	10
(6)	Settlement or cancellation of accrual made at the end of the preceding year	(10)
10	Amounts accrued at the end of the current year	5
10	Balance at 31 March	5

**11. Cash flow statement – cash and cash equivalents**

The balances of cash and cash equivalents comprise:

31/03/15 £000		31/03/16 £000
-	Temporary Advances to Highland Council Loans Fund	-
(160)	Temporary Advances from Highland Council Loans Fund	(125)
(160)	<b>Total cash and cash equivalents</b>	(125)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**12. Amounts reported for resource allocation decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Code of Practice. However, decisions about resource allocation are taken by the Partnership on the basis of monitoring reports analysed across the service. These reports are prepared on a different basis from the accounting policies used in the annual accounts. In particular:

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services

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

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

<b>2014/15</b>		<b>2015/16</b>
£		£
200	Net expenditure in the service analysis	<b>193</b>
-	Net expenditure of services and support services not included in the analysis	-
	<i>Amounts in the Comprehensive Income and Expenditure relating to Non Statutory Charges</i>	
	<u>IAS 19 pension benefits net charges made to the Comprehensive Income and Expenditure Statement</u>	
69	Current service cost	99
(42)	Employer's contribution	(49)
-	Past service cost	-
-	Settlements and Curtailments	-
<u>27</u>		<u>50</u>
4	IAS 19 Employee Leave	<b>(5)</b>
	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	
(2)	Interest on revenue balances	-
<u>229</u>	<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<u><b>238</b></u>



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**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

2015/16	Service analysis £000	Non Statutory Charges £000	<b>Cost of services £000</b>	Corporate Amounts	<b>Total £000</b>
Government grants and contributions	(1,679)	-	<b>(1,679)</b>	-	<b>(1,679)</b>
Other grants	(118)	-	<b>(118)</b>	-	<b>(118)</b>
Other income	(187)	-	<b>(187)</b>	-	<b>(187)</b>
Income from requisitions	-	-	-	(193)	<b>(193)</b>
<b>Total Income</b>	<b>(1,984)</b>	-	<b>(1,984)</b>	<b>(193)</b>	<b>(2,177)</b>
Staff costs	349	45	<b>394</b>	-	<b>394</b>
Property costs	24	-	<b>24</b>	-	<b>24</b>
Travel and subsistence costs	38	-	<b>38</b>	-	<b>38</b>
Administration and meeting costs	38	-	<b>38</b>	-	<b>38</b>
Research and strategy development costs	1,669	-	<b>1,669</b>	-	<b>1,669</b>
Publicity costs	9	-	<b>9</b>	-	<b>9</b>
European projects costs	12	-	<b>12</b>	-	<b>12</b>
Support services	38	-	<b>38</b>	-	<b>38</b>
Pension interest cost and expected return on Pension Assets	-	-	-	28	<b>28</b>
<b>Total expenditure</b>	<b>2,177</b>	<b>45</b>	<b>2,222</b>	<b>28</b>	<b>2,250</b>
 (Surplus)/deficit on the provision of services	 <b>193</b>	 <b>45</b>	 <b>238</b>	 <b>(165)</b>	 <b>73</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

<b>2014/15</b>	Service analysis £000	Non Statutory Charges £000	Amounts not included in I and E £000	<b>Cost of services £000</b>	Corporate Amounts	<b>Total £000</b>
Government grants and contributions	(1,071)	-	-	<b>(1,071)</b>	-	<b>(1,071)</b>
Other grants	(152)	-	-	<b>(152)</b>	-	<b>(152)</b>
Other income	(42)	-	-	<b>(42)</b>	-	<b>(42)</b>
Income from requisitions	-	-	-	-	(200)	<b>(200)</b>
<b>Total Income</b>	<b>(1,265)</b>	-	-	<b>(1,265)</b>	<b>(200)</b>	<b>(1,465)</b>
Staff costs	314	31	-	<b>345</b>	-	<b>345</b>
Property costs	22	-	-	<b>22</b>	-	<b>22</b>
Travel and subsistence costs	43	-	-	<b>43</b>	-	<b>43</b>
Administration and meeting costs	36	-	-	<b>36</b>	-	<b>36</b>
Research and strategy development costs	953	-	-	<b>953</b>	-	<b>953</b>
Publicity costs	14	-	-	<b>14</b>	-	<b>14</b>
European projects costs	44	-	-	<b>44</b>	-	<b>44</b>
Support services	37	-	-	<b>37</b>	-	<b>37</b>
Interest payable	2	-	(2)	-	2	<b>2</b>
Pension interest cost and expected return on Pension Assets	-	-	-	-	10	<b>10</b>
<b>Total expenditure</b>	<b>1,465</b>	<b>31</b>	<b>(2)</b>	<b>1,494</b>	<b>12</b>	<b>1,506</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>200</b>	<b>31</b>	<b>(2)</b>	<b>229</b>	<b>(188)</b>	<b>41</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**13. External audit costs**

The Partnership has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims and statutory inspections and to non-audit services provided by external auditors

2014/15 £000		2015/16 £000
10	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	10
-	Fees payable in respect of other services provided by the appointed auditor during the year	-
<u>10</u>		<u>10</u>

**14. Grant income**

The Partnership credited the following specific grants to the Comprehensive Income and Expenditure Statement

2014/15 £000		2015/16 £000
515	Scottish Government – core funding	551
	Scottish Government – East Inverness Bus Corridor Improvement Project	122
378		
150	Scottish Government – Community Links Projects	755
28	Scottish Government – Hi-Travel Project	186
-	Food Port Project (Lifting the Spirit)	14
5	Active Travel Project	100
	Seamless Travel across the Atlantic area Regions using Sustainable Transport (START)	-
147	Smart Peripheral and Remote Airports 2020 (SPARA) – European transport project	4
-		-
<u>1,223</u>		<u>1,732</u>

**15. Defined benefit pension schemes**

**Participation in pension schemes**

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

The authority participates in one post employment scheme:

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**Transactions relating to post employment benefits**

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

2014/15		2015/16
£000		£000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<b>Cost of services</b>	
69	Current service cost	99
-	Past service cost (including curtailments)	-
69		99
	<i>Financing and investment income and expenditure</i>	
54	Interest cost	71
(44)	Interest income on plan assets	(43)
10		28
79	<b>Total post employment benefits charged to the surplus or deficit on the provision of services</b>	127
	Other post employment benefits charged to the comprehensive income and expenditure statement	
	<i>Remeasurement of the net defined benefit liability comprising:</i>	
(249)	Return on plan assets (excluding the amount included in the net interest expense)	19
823	Actuarial losses arising on changes in financial assumptions	(266)
653	<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	(120)
	<b>Movement in reserves statement</b>	
(79)	Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(127)
	<b>Actual amount charged against the General Fund balance for pensions in the year</b>	
42	Employers contributions payable to the scheme	49

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**Pension assets and liabilities recognised in the Balance Sheet**

	<b>31/03/16</b>	31/03/15
	<b>£000</b>	£000
Present value of the defined benefit obligation	(2,051)	(2,168)
Fair value of pension fund assets	1,374	1,322
<b>Net liability arising from defined benefit obligation</b>	<b>(677)</b>	<b>(846)</b>

**Information about the defined benefit obligation**

	Liability split		Duration
	£000s	Percentage (%)	
Active members	1,148	56.0	32.3
Deferred members	-	-	-
Pensioner members	903	44.0	14.0
<b>Total</b>	<b>2,051</b>	<b>100.0</b>	<b>21.5</b>

**Assets and liabilities in relation to post employment benefits**

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

		31/03/16
		<b>£000</b>
31/03/15		
£000		
1,244	Opening value	2,168
69	Current service cost	99
54	Interest cost	71
823	Actuarial loss/(gain)	(266)
(40)	Estimated Benefits paid net of transfers in	(41)
18	Contributions by scheme participants	20
-	Past service cost	-
2,168	Closing value	<b>2,051</b>

**Reconciliation of fair value of the scheme assets**

		31/03/16
		<b>£000</b>
31/03/15		
£000		
1,009	Opening value	1,322
44	Expected return on Scheme assets	43
249	Actuarial (loss)/gain	(19)
42	Contributions by employer	49
18	Contributions by Scheme participants	20
(40)	Estimated Benefits paid net of transfer in and including unfunded	(41)
1,322	Closing value	<b>1,374</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**Analysis of Pension Fund's Assets**

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

2014/15		2015/16
1%	<b>Cash and cash equivalents</b>	4%
	<b>Equity securities:</b>	
	<i>By Industry type</i>	
11%	Consumer	14%
8%	Manufacturing	5%
4%	Energy and utilities	3%
10%	Financial institutions	11%
3%	Health and Care	2%
7%	Information Technology	8%
2%	Other	2%
	<b>Debt securities:</b>	
	<i>By sector</i>	
14%	Corporate	13%
7%	Government	5%
3%	<b>Private Equity</b>	4%
	<b>Property:</b>	
10%	UK	10%
1%	Overseas	0%
	<b>Other Investment Funds:</b>	
19%	Equity	19%
<u>100%</u>	<b>Total</b>	<u>100%</u>

Notes:

- a) All pension fund assets other than private equity and property have quoted prices in active markets
- b) The risks relating to assets in the scheme are also analysed below:

Fair value of pension fund assets

31/03/15		31/03/16
£000		£000
	Equity Instruments	
1,149	• Quoted in an active market	1,319
173	• Not quoted in an active market	55
1,322	Sub total equity instruments	1,374

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2014.

The significant assumptions used by the actuary have been:

2014/15		2015/16
	Mortality Assumptions:	
	Longevity at age 65 for current pensioners (years)	
22.5	• Men	22.5
24.1	• Women	24.1
	Longevity at age 65 for future pensioners (years)	24.7
24.7	• Men	26.8
26.8	• Women	
2.4%	Rate of inflation	2.2%
4.3%	Rate of increase in salaries	4.2%
2.4%	Rate of increase in pensions	2.2%
3.2%	Rate for discounting fund liabilities	3.5%
50.0%	Take up of option to convert annual pension into retirement lump sum	50.0%

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

	<b>Impact on the Defined Benefit Obligation in the Fund</b>	
	<b>Approximate % increase to Employer Liability</b>	<b>Approximate monetary amount (£000)</b>
Member life expectancy (increase in 1 year)	<b>3%</b>	<b>62</b>
Rate of increase in salaries (increase by 0.5%)	<b>6%</b>	<b>119</b>
Rate of increase in pensions (increase by 0.5%)	<b>7%</b>	<b>141</b>
Rate for discounting fund liabilities (decrease by 0.5%)	<b>13%</b>	<b>268</b>

## **Impact on the Partnership's Cash Flow**

The aims of the fund are to:

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

The employer's contributions are set by the Fund actuary at each triennial actuarial valuation (the most recent being as at 31 March 2014), or at any time as instructed to do so by the Council. The actuaries have estimated that contributions for the year to 31 March 2017 will be approximately £0.050m.

## **16. Related parties**

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

### **Highland Council**

The Highland Council provided £0.091m representing 45.5% of the requisition funding for the Partnership and holds 3 of the 8 votes on the Board. In addition Highland Council provides financial and computing services, at a cost of £0.019m, to the Partnership. The Highland Council also provided £0.183m towards the development of a new Dalcross Railway Station, Real Time Bus Displays and Electric Bus Charging Points. In the year the Partnership contributed £0.083m towards travel related projects undertaken by Highland Council.

### **Moray Council**

Moray Council provided £0.046m representing 23.0% of the requisition funding for the Partnership and holds 2 of the 8 votes on the Board. During the year the Partnership contributed £0.040m towards travel projects undertaken by Moray Council.

### **Argyll and Bute Council**

Argyll and Bute Council provided £0.027m representing 13.5% of the requisition funding for the Partnership and holds 1 of the 8 votes on the Board. During the year the Partnership contributed £0.025m towards travel projects undertaken by Argyll and Bute Council.

### **Comhairle Nan Eilean Siar**

The Comhairle Nan Eilean Siar provided £0.019m representing 9.5% of the requisition funding for the Partnership and holds 1 of the 8 votes on the Board. Comhairle Nan Eilean Siar also provided £0.017m towards an Air Study on the Barra to Glasgow rotations and a Ferry Availability Study. Comhairle Nan Eilean Siar provides administrative, personnel and legal services at a cost of £0.008m. During the year the Partnership contributed £0.021m towards travel projects undertaken by Comhairle Nan Eilean Siar.

### **Orkney Islands Council**

Orkney Islands Council provided £0.017m representing 8.5% of the requisition funding for the Partnership and holds 1 of the 8 votes on the Board. The Partnership provided £0.004m to reimburse Orkney Islands Council for members' expenses and advertising costs. During the year the Partnership contributed £0.106m towards travel projects undertaken by Orkney Islands Council.



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**Scottish Government**

Scottish Government exerts significant influence through legislation and grant funding. Scottish Government provided grant funding of £0.551m for the Partnership, £0.122m for the East Inverness Bus Improvement Corridor project, £0.755m for the Community Links project, £0.186m for the Hi-Travel Scheme and £0.012m towards an Air Study on the Barra to Glasgow rotations. During the year the Partnership contributed £0.350m towards the Ballachulish Bridge to Corran ferry Cycleway project.

**17. Operating Leases**

The Partnership leases office premises at two locations.

Partnership as Lessee

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

31/03/15 £000		31/03/16 £000
9	Not later than one year	10
<u>9</u>		<u>10</u>

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

31/03/15 £000		31/03/16 £000
7	Minimum lease payments	9
<u>7</u>		<u>9</u>

**18. Short Term Debtors**

2014/15 £000		2015/16 £000
227	Central government bodies	82
-	Other local authorities	198
114	Other entities and individuals	25
<u>341</u>	Total	<u>305</u>

**19. Short Term Creditors**

2014/15 £000		2015/16 £000
36	Central government bodies	7
95	Other local authorities	89
60	Other entities and individuals	89
<u>191</u>	Total	<u>185</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
ANNUAL ACCOUNTS 2015/16

**20. Financial Instruments Balances**

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

2014/15 £000		2015/16 £000
<u>-</u>	Cash and cash equivalents	<u>-</u>
<u>160</u>	Short-term borrowing	<u>125</u>
<u>341</u>	Short-term debtors	<u>305</u>
<u>191</u>	Short-term creditors	<u>185</u>

**21. Events after the Balance Sheet date**

The unaudited annual accounts were issued by the Treasurer on 28 June 2016 and the audited accounts were authorised for issue on 28 September 2016. Events taking place after this date are not reflected in the annual accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the annual accounts and notes have been adjusted in all material respects to reflect the impact of this information.

**Independent auditor's report to the members of The Highlands and Islands Transport Partnership and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of The Highlands and Islands Transport Partnership for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

**Respective responsibilities of the Treasurer and auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the Partnership as at 31 March 2016 and of the income and expenditure of the Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

**Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I am required to report by exception**

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

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

I have nothing to report in respect of these matters.

Maggie Bruce CA  
Senior Audit Manager  
Audit Scotland - Audit Services  
Ballantyne House, 84 Academy Street  
Inverness IV1 1LU

29 September 2016