

The Highlands and Islands

Transport Partnership

Annual Accounts

(Audited)

2018-2019

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP
ANNUAL ACCOUNTS 2018/19

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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 2018/19 and understand the year end financial position as at 31 March 2019. In addition, it provides a narrative on the financial outlook for the Partnership during financial year 2019/20 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 wellbeing; 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 other (Non-Councillor) Members. The (Non-Councillor) Members were firstly appointed in 2007 by the Scottish Ministers and have subsequently been appointed by the Partnership with the approval of Scottish Ministers.

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.

Board Composition

The Board Members for 2018/19 as at June 2019 are named in the following table:

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Council	Substantive Member	Substitute Member
Highland Council	Cllr Allan Henderson	Cllr Hugh Morrison
Moray Council	Cllr John Cowe	Cllr Gordon Cowie
Argyll & Bute Council	Cllr Roderick McCuish	Cllr John Armour
Comhairle Nan Eilean Siar	Cllr Uisdean Robertson	Cllr Kenny MacLeod
Orkney Islands Council	Cllr Graham Sinclair	Cllr James Stockan
Non-Council Board Member	Prof David Gray	
Non-Council Board Member	Mrs Naomi Bremner	
Non-Council Board Member	Mr Robert Andrew	
Non-Council Board Member	Mr Okain MacLennan (term ended 14 September 2018)	
Non-Council Board Member	Mr Wilson Metcalfe (term ended 20 April 2018)	

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 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 Head of Corporate Finance and Commercialism 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.

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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 2018/19 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 four 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 2018/19 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
- Skye Air Service Development
- Orkney Internal Air and Ferry Study / Routes and Services Methodology
- Real Time Passenger Information
- Bus Priority Measures
- Inverness Airport (Dalcross) Station Development
- HiTravel Shared Service Travel Information Project
- Fort William STAG
- Inverness Campus Community Links Project
- Smarter Choices Smarter Places Project Support
- SPARA 2020 Northern Periphery and Arctic Area Project
- G-PaTRA North Sea Area Project
- MOVE North Sea Area Project
- INCLUSION Horizon 2020 Project
- ERDF Smart Cities – Scotland's 8th City ERDF
- Low Carbon Transport and Travel ERDF
- EU Project Development (SUV, FASTER)

HITRANS also received direct budget from Transport Scotland to support the delivery of a Regional Active Travel Fund and at the end of the financial year an allocation from the unallocated Transport Scotland Active Travel programme to deliver the following projects:

- Feasibility and Design of Active Travel Routes
- Bikes on Buses
- Cycle Parking at Interchanges
- Active Travel Masterplan Implementation
- Junction Improvement - Dufftown
- Active Travel Bridge Upgrade
- NCN78 Crinan Canal to Lochgilphead

In addition to the above projects, the Active Travel partnership with Sustrans during 2018/19 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 2018/19. During 2018/19 projects delivered under this programme include:-

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- Active Travel Workplace Challenge
- Cycle Counters
- Cycle Shelters
- Cycle Stands
- Cycle Lockers
- Active Travel Maps
- 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.

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 was completed in 2017/18 and this provided a more streamlined approach to Monitoring for 2018. This will complement the refresh of the Regional Transport Strategy which has received HITRANS Board approval in advance of being submitted for consideration and approval by Scottish Ministers. The RTS will align with all relevant national and local strategies and Action Plans/Programmes, including the recently reviewed 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.

Going Concern

Note 11 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 Pension 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 £1.031m as at 31 March 2019 (31 March 2018 - £0.732m) 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 2019 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.

A description of the purpose of the Primary Financial Statements has been included immediately prior to the four statements: the Comprehensive Income and Expenditure Statement, Movement in Reserves 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

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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 four 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.

Budget Performance Statement **For the year ended 31 March 2019**

	2018/19		
	Budget £000	Actual £000	Variance £000
Staff costs	413	409	(4)
Property costs	22	19	(3)
Travel and subsistence costs	34	29	(5)
Administration and meeting costs	30	37	7
Research and strategy development costs	437	607	170
Publicity costs	10	11	1
European projects costs	228	414	186
Support services	40	38	(2)
Gross expenditure	1,214	1,564	350
Government grants	(765)	(765)	-
Other grants	(100)	(405)	(305)
Other income	(125)	(193)	(68)
Constituent Council requisitions	(224)	(201)	23
Gross income	(1,214)	(1,564)	(350)
Net expenditure	-	-	-

Overall the budget balanced with the main variations from budget during the year being as follows:

- The overspends in both research and strategy development costs and European projects costs are offset by third party contributions, included in other income, for project work and grant income received in respect of European projects.
- The budget for other grants relates to a grant from SUSTRANS for cycling project work. The majority of the favourable variance relates to grant income for European projects.

All government grants in respect of 2018/19 were received in the financial year.

The Partnership's underspend on the 2018/19 revenue budget was £23,000 which the Partnership intend to use as a commitment towards the jointly funded 'smart cities' transport

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projects between Highland Council, HITRANS and the European Regional Development Fund.

Balance Sheet

Highland Council's Loans Fund provides short term borrowing facilities for the Partnership, as and when required. At 31 March 2019 the Partnership had short term borrowing of £0.119m with the Loans Fund, compared with a credit balance of £0.014m at 31 March 2018. This was down by £0.133m on the previous year. The movement was due to a fall in short term liabilities and a slight increase in short term debtors.

Unusable reserves increased by £0.299m from £0.732m to £1.031m as at 31 March 2019. 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 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 2015 position as shown in the General Register Office for Scotland. The 2016 position has not materially changed, therefore there is no change to the percentage share of income to be contributed by each Council for 2018/19, and is as follows:

2017/18		Constituent Authority	2018/19	
£000	% share		£000	% share
91	45.5	The Highland Council	91	45.5
47	23.5	Moray Council	47	23.5
26	13.0	Argyll and Bute Council	26	13.0
19	9.5	Comhairle Nan Eilean Siar	19	9.5
17	8.5	Orkney Islands Council	17	8.5
200	100.0	Total	200	100.0

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Statement of Requisitions 2018/19

Constituent Authority	Budget requisition £000	Actual requisition £000	Balance due to constituent authority £000
Highland Council	102	92	(10)
Moray Council	53	47	(6)
Argyll and Bute Council	29	26	(3)
Comhairle Nan Eilean Siar	21	19	(2)
Orkney Islands Council	19	17	(2)
Total	224	201	(23)

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 11 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 £1.022m as at 31 March 2019 (31 March 2018 £0.726m) due to the accrual of pension liabilities in accordance with IAS 19.

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 2019.

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

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Highlands and Islands. The Partnership will continue to work hard to attract external funding and focus on a partnership approach to delivery.

On 8 February 2019, the Partnership's Board agreed a revenue budget for 2019/20, which made provision for £0.515m of core service costs and £0.308m of project expenditure in support of Regional Transport Strategy projects. In recognition of the current financial constraints faced by public sector organisations, the 2019/20 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 2020/21 and anticipates savings on a number of budget lines in 2019/20 when compared with 2018/19.

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. The Transport Bill currently going through the Scottish Parliament legislative process makes provision for a change in the legislation to allow Regional Transport Partnerships to retain reserves, and 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 2018/19 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 2018/19 Annual Accounts.

Cllr. Allan Henderson
Chair of the Partnership Board
13 September 2019

Liz Denovan CPFA
Treasurer
13 September 2019

Ranald Robertson
Partnership Director
13 September 2019

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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. Allan Henderson
Chair of the Partnership Board
13 September 2019

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 2019.

Liz Denovan CPFA
Treasurer
13 September 2019

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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, the most recent review was carried out in 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 seven supporting principles of effective corporate governance:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the partnership's capacity including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

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

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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 16 November 2018.

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

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 Corporate Audit 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 Corporate Audit Manager prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control.

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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.

In order to inform the Corporate Audit 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 adequacy and effectiveness of the systems of internal control for the financial year 2018/19.
- Review and certification of EU project grant claims in respect of the Smart Peripheral and Remote Airports (SPARA) 2020 and Green Passenger Transport in Rural Areas (G-PaTRA) projects.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. There are no outstanding agreed actions from previous reports.

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' framework of governance, risk management and control for the year to 31 March 2019.

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 (ie the Treasurer) to report directly to the Chief Executive (ie 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.

Cllr. Allan Henderson
Chair of the Partnership Board
13 September 2019

Ranald Robertson
Partnership Director
13 September 2019

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REMUNERATION REPORT

All information disclosed in the tables at paragraphs 3 and 4 in the Remuneration Report has been audited by Grant Thornton. The other sections of the Remuneration Report have been reviewed by Grant Thornton 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 June 2012.

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	Total Remuneration 2018/19	Total Remuneration 2017/18
	£	£	£
Ranald Robertson, Partnership Director	80,602	80,602	77,876
Total	80,602	80,602	77,876

The senior employee did not receive any taxable expenses.

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.

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3.2 Remuneration by Pay Band

Analysis of Employees Earning Over £50,000

Salary Band	2018/19	2017/18
Number	Number	Number
£75,000-£79,999		1
£80,000-£84,999	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	2018/19			2017/18
	Salary, Fees and Allowances	Non-cash expenses & benefits-in-kind	Total Remuneration	Total Remuneration
	£	£	£	£
A Henderson Chair	-	-	-	-
J Cowe Vice-Chair	82	-	82	299
Total	82	-	82	299

The Chair and Vice-Chair did not receive taxable expenses.

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	2018/19	2017/18
	£	£
Salaries	-	-
Expenses	1,383	1,934
Total	1,383	1,934

The annual return of Councillors' salaries and expenses for 2018/19 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.

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4. Pension Benefits

The pension entitlement of the senior employee for the year to 31 March 2019 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 2019	For year to 31 March 2018		As at 31 March 2019	Difference from March 2018
	£	£		£000	£000
Ranald Robertson, Partnership Director	15,073	14,563	Pension Lump Sum	25 31	3 2
Total	15,073	14,563		56	5

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 2018/19 is 18.7% of the pensionable salary which is the same as the 2017/18 contribution rate.

Cllr. Allan Henderson
Chair of the Partnership Board
13 September 2019

Ranald Robertson
Partnership Director
13 September 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of The Highlands and Islands Transport Partnership for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash-Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the body as at 31 March 2019 and of its income and expenditure 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 2018/19 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.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is three years. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit

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Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Treasurer and the Highlands and Islands Transport Partnership for the financial statements

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Highland and Islands Transport Partnership is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual accounts

The Treasurer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, are set out in our Annual Audit Report.

Use of our report

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 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Joanne Brown (for and on behalf of Grant Thornton UK LLP)
110 Queen Street
Glasgow
G1 3BX
September 2019

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards (IFRS), rather than expenditure permitted by regulations which is funded by requisitions from the constituent authorities. The funding position is shown in both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

Gross Expenditure £000	2017/18			2018/19		
	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
484	-	484	Staff costs	496	-	496
16	-	16	Property costs	19	-	19
28	-	28	Travel and subsistence costs	29	-	29
36	-	36	Administration and meeting costs	37	-	37
422	-	422	Research and strategy development costs	607	-	607
9	-	9	Publicity costs	11	-	11
5	-	5	European projects costs	414	-	414
38	-	38	Support services	38	-	38
-	(780)	(780)	Income	-	(1,363)	(1,363)
1,038	(780)	258	Cost of services	1,651	(1,363)	288
			Interest on net defined benefit pension liability			21
			(182) Requisition from Constituent Authorities			(201)
			108 Deficit on provision of services (note 1)			108
			Return on plan assets (excluding the amount included in net interest expense) (note 11)			(64)
			23 Actuarial losses/(gains) arising on changes in financial assumptions			255
			(614)			
			(483) Total comprehensive income and expenditure			299

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MOVEMENT IN RESERVES STATEMENT

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 Statement shows how the movements in the year of the Partnership's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to the Constituent Authorities. The net increase/decrease line shows the movement in the year for the various reserves and fund following these adjustments.

2017/18				2018/19			
General Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000	General Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
-	-	(1,215)	(1,215)	Balance brought forward	-	-	(732)
Movement in reserves							
(108)	(108)	591	483	Total Comprehensive Expenditure and income	(108)	(108)	(191)
108	108	(108)	-	Adjustments between accounting basis and funding basis under regulations (note 6)	108	108	(108)
-	-	483	483	Net Increase/(Decrease)	-	-	(299)
-	-	(732)	(732)	Balance at 31 March 2019	-	-	(1,031)

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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'.

	31/03/18 £000	Notes	31/03/19 £000
345 Short term debtors	14	354	
14 Cash and cash equivalents	8	-	
359 Current assets			354
- Short term borrowing	8	(119)	
(365) Short term creditors	15	(244)	
(365) Current liabilities			(363)
(726) Other long term liabilities	11	(1,022)	
(726) Long term liabilities			(1,022)
(732) Net assets			(1,031)
(726) Pensions reserves	7	(1,022)	
(6) Employee statutory adjustment account		(9)	
(732) Total reserves			(1,031)

The unaudited Annual Accounts were issued on 27 June 2019 and the audited Annual Accounts were authorised for issue on 13 September 2019.

Liz Denovan Foster CPFA
Treasurer
13 September 2019

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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.

		Notes	2018/19
			£000
2017/18			
£000			
108	Net (surplus)/deficit on the provision of services	1	108
(320)	Adjust net (surplus)/deficit on the provision of services for non-cash movements		(241)
-	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities		-
(212)	Net cash flow from operating activities		(133)
-	Financing activities		-
(212)			(133)
226	Cash and cash equivalents at the beginning of the year		14
14	Cash and cash equivalents at the end of the year	8	(119)

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ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. EXPENDITURE AND FUNDING ANALYSIS

This statement shows for the Partnership, how annual expenditure is used and funded from resources (government grants, other grants and other income); in comparison with those resources consumed or earned, in accordance with generally accepted accounting practices. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Net Expenditure chargeable to the General Fund £000	2017/18		Net Expenditure chargeable to the General Fund £000	2018/19	
	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
408	76	484	Staff costs	409	496
16	-	16	Property costs	19	19
28	-	28	Travel and subsistence costs	29	29
36	-	36	Administration and meeting costs	37	37
422	-	422	Research and strategy development costs	607	607
9	-	9	Publicity costs	11	11
5	-	5	European projects costs	414	414
38	-	38	Support services	38	38
962	76	1,038	Cost of Services	1,564	1,651
(962)	32	(930)	Other Income and Expenditure	(1,564)	(1,543)
-	108	108	Deficit	-	108
-			Opening and Closing General Fund Balance at 31 March 2019	-	108

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Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments between Funding and Accounting Basis

Net Change for the pensions Adjustments	2017/18			Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure	2018/19		
	Employee Annual Leave Adjustment £000	Accrued Total Adjustments £000	Total £000		Employee Annual Leave Adjustment £000	Accrued Total Adjustments £000	
76	-	76	Staff costs	90	(3)	87	
76	-	76	Net Cost of Services	90	(3)	87	
32	-	32	Other income & expenditure	21	-	21	
108	-	108	Total Adjustments	111	(3)	108	

2. ACCOUNTING POLICIES

General principles

The Annual Accounts summarises the transactions of the Partnership for the 2018/19 financial year and its position at the year end of 31 March 2019. 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 2018/19 and the Service Reporting Code of Practice 2018/19, 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.

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- 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 £0.119m (2017/18 positive balance £0.014m) represents the negative balance in Partnership funds that temporarily sit 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 Employee Statutory Adjustment Account in the Movement in Reserves Statement.

Post-Employment Benefits

Employees of the Partnership are admitted to the Highland Council Pension Fund which administers the Local Government Pension Scheme. As of 1 April 2015 this is a defined benefit career average revalued earnings (CARE) 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 which assesses the present value of the future payments that will be made in relation to retirement benefits earned to date, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees
- The 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 change in the net pensions liability is analysed into the following components:

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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.
- 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.

Re-measurements 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:

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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.

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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.

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.

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.

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

The following accounting standards will be adopted within the 2019/20 Code effective from 1 April 2019. There is therefore no impact on the 2018/19 financial statements.

- Amendments to IAS 40 Investment Property: Transfers of Investment Property (clarifies guidance regarding transfers in and out of investment properties).
- Annual improvements to IFRS Standards 2014-2016 cycle
 - a) The improvement to IFRS 1 First-time Adoption of International Financial Reporting (deletion of short term exceptions)
 - b) IFRS 12 Disclosure of Interests in Other Entities (disclosure requirements of an entity's interests that are classified as held for sale, held for distribution or as discontinued operations)
 - c) IAS 28 Investments in Associates and Joint Ventures (clarifies the election to measure at fair value through profit and loss an investment in an associate or joint venture that is held by an entity)
- IFRIC 22 Foreign Currency Transactions and Advance Considerations (where a non-monetary asset or liability arises from either the payment or receipt of an advance consideration).
- IFRIC 23 Uncertainty over Tax Treatments (clarifies the accounting for uncertainties in income taxes).
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (alters the existing requirements in IFRS 9 regarding termination rights).

The overall impact of this adjustment on the financial position of the Partnership is not expected to be material.

4. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 2, 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.

5. 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 2019 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 11.

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6. 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	Total 2017/18 £000	General Fund £000	Unusable reserves £000	Total 2018/19 £000
Adjustments involving the Pensions Reserve					
Reversal of items relating to post-employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 11)					
(161)	161	-	(162)	162	-
53	(53)	-	57	(57)	-
Adjustments involving the Employee Statutory Adjustment Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements					
-	-	-	(3)	3	-
(108)	108	-	Total adjustments	(108)	108

7. Balance Sheet – 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 pension 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.

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	2017/18 £000	2018/19 £000
1,209	Balance at 1 April	726
23	Return on plan assets (excluding the amount included in the net interest expense)	(64)
(250)	Actuarial (gains)/losses arising on changes in financial assumptions	255
(4)	Actuarial (gains)/losses arising on changes in demographic assumptions	-
(360)	Experience adjustments	-
<hr/>		
618		917
161	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	162
(53)	Employer's pension contributions and direct payments to pensioners payable in the year	(57)
<hr/>		
726	Balance at 31 March	1,022
<hr/>		

8. Cash flow statement – cash and cash equivalents

The balances of cash and cash equivalents comprise:

	31/03/18 £000	31/03/19 £000
14	Temporary Advances to Highland Council Loans Fund	-
-	Temporary Advances from Highland Council Loans Fund	(119)
<hr/>		
14	Total cash and cash equivalents	(119)
<hr/>		

9. 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

	2017/18 £000	2018/19 £000
10	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	10

No non-audit services were provided by the external auditor during the year.

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10. Grant income

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

2017/18		2018/19
	£000	£000
523	Scottish Government – core funding	523
-	Scottish Government – Green Bus Fund	127
27	Scottish Government – Car Club Development	-
-	Scottish Government – Press'N'Ride	115
101	Active Travel Project	112
-	Inverness Rail Station Access Project	75
	Smart Peripheral and Remote Airports 2020 (SPARA) –	
16	European transport project	186
	Scotland's 8 th City – the Smart City – European development of	
-	urban centres project	103
	Green Passenger Transport in Rural Areas (G-PaTRA) –	
-	European transport project	4
<u>667</u>		<u>1,245</u>

11. 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 career average revalued earnings (CARE) scheme, meaning that the Board and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

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.

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	2017/18	2018/19
	£000	£000
Comprehensive Income and Expenditure Statement		
	Cost of services	
129	Current service cost	119
-	Past service cost (including curtailments)	22
<u>129</u>		<u>141</u>
	<i>Financing and investment income and expenditure</i>	
76	Interest cost	68
(44)	Interest income on plan assets	(47)
<u>32</u>		<u>21</u>
161	Total post-employment benefits charged to the surplus or deficit on the provision of services	162
	Other post-employment benefits charged to the comprehensive income and expenditure statement	
	<i>Re-measurement of the net defined benefit liability comprising:</i>	
23	Return on plan assets (excluding the amount included in the net interest expense)	(64)
(250)	Actuarial losses arising on changes in financial assumptions	255
(4)	Actuarial losses arising on changes in demographic assumptions	-
(360)	Experience Adjustments	-
<u>(591)</u>	Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	<u>191</u>
	Movement in reserves statement	
(161)	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	<u>(162)</u>
	Actual amount charged against the General Fund balance for pensions in the year	
<u>53</u>	Employers' contributions payable to the scheme	<u>57</u>

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Pension assets and liabilities recognised in the Balance Sheet

	31/03/18 £000	31/03/19 £000
Present value of the defined benefit obligation	(2,457)	(2,903)
Fair value of pension fund assets	1,731	1,881
Net liability arising from defined benefit obligation	(726)	(1,022)

Information about the defined benefit obligation as at 31 March 2019 – Funded Obligations

	Liability split		Duration Years
	£000s	Percentage (%)	
Active members	1,840	63.4	31.0
Deferred members	3	0.1	4.0
Pensioner members	1,060	36.5	13.7
Total	2,903	100.0	22.4

The durations are weighted averages as at the last formal valuation date.

Assets and liabilities in relation to post-employment benefits

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

	31/03/18 £000	31/03/19 £000
2,889 Opening value		2,457
129 Current service cost		141
76 Interest cost		68
(614) Actuarial loss/(gain)		255
(44) Estimated Benefits paid net of transfers in		(45)
21 Contributions by scheme participants		27
2,457		2,903

Reconciliation of fair value of the scheme assets

	31/03/18 £000	31/03/19 £000
1,680 Opening value		1,731
44 Expected return on Scheme assets		47
(23) Actuarial (loss)/gain		64
53 Contributions by employer		57
21 Contributions by Scheme participants		27
(44) Estimated Benefits paid net of transfer in and including unfunded		(45)
1,731		1,881

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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:

Restated 2017/18		2018/19
3%	Cash and cash equivalents	2%
	Equity securities:	
	<i>By Industry type</i>	
14%	Consumer	16%
6%	Manufacturing	9%
3%	Energy and utilities	3%
11%	Financial institutions	12%
2%	Health and Care	3%
9%	Information Technology	5%
2%	Other	2%
	Debt securities:	
	<i>By sector</i>	
6%	Corporate	7%
9%	Government	8%
3%	Other (property debt)	3%
4%	Private Equity	5%
	Property:	
9%	UK	9%
	Other Investment Funds:	
19%	Equity	16%
<hr/> 100%	Total	<hr/> 100%

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

31/03/18		31/03/19
£000		£000
	Equity Instruments	
1,591	• Quoted in an active market	1,787
140	• Not quoted in an active market	94
<hr/> 1,731	Subtotal equity instruments	<hr/> 1,881

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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 2017.

The significant assumptions used by the actuary have been:

2017/18		2018/19
Mortality Assumptions:		
Longevity at age 65 for current pensioners (years)		
21.9	• Men	21.9
24.3	• Women	24.3
Longevity at age 65 for future pensioners (years)		
23.3	• Men	23.3
26.1	• Women	26.1
Rate of inflation		
2.4%		2.5%
3.4%	Rate of increase in salaries	3.5%
2.4%	Rate of increase in pensions	2.5%
2.7%	Rate for discounting fund liabilities	2.4%
Take up of option to convert annual pension into retirement lump sum (pre 2009)		
50.0%		50.0%
Take up of option to convert annual pension into retirement lump sum (post 2009)		
75.0%		75.0%

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.

Impact on the Defined Benefit Obligation in the Fund		
	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
Rate of increase in salaries (increase by 0.5%)	4%	104
Rate of increase in pensions (increase by 0.5%)	9%	249
Rate for discounting fund liabilities (decrease by 0.5%)	13%	364

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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 2017 for the 2017/18 Annual Accounts), or at any time as instructed to do so by the Council. The actuaries have estimated that contributions for the year to 31 March 2020 will be approximately £0.057m.

12. 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 £0.020m, to the Partnership. The Highland Council also provided £0.010m towards the cost of the Partnership employing a Public Transport Information Officer and a £0.010m contribution for a bus operations scheduling electronic bus service registration system. In the year the Partnership contributed £0.007m towards travel related projects undertaken by Highland Council, and reimbursement of catering and room hire costs.

Moray Council

Moray Council provided £0.047m representing 23.5% of the requisition funding for the Partnership and holds 2 of the 8 votes on the Board. Moray Council also provided £0.008m towards the cost of the Partnership employing a Public Transport Information Officer. In the year the Partnership contributed £0.127m towards the purchase of an electric bus vehicle and £0.015m contribution towards a low carbon travel and transport project, both forming part of the G-PaTRA European project. The Partnership contributed a further £0.015m towards travel related projects undertaken by Moray Council.

Argyll and Bute Council

Argyll and Bute Council provided £0.026m representing 13.0% of the requisition funding for the Partnership and holds 1 of the 8 votes on the Board. Argyll and Bute Council also provided £0.008m towards the cost of the Partnership employing a Public Transport Information Officer.

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 £0.005m towards the cost of the Partnership employing a Public Transport Information Officer and a £0.020m contribution towards an active travel strategy undertaken by the Partnership. Comhairle Nan Eilean Siar provides administrative, personnel and legal services at a cost of £0.008m.

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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. Orkney Islands Council also provided £0.005m towards the cost of the Partnership employing a Public Transport Information Officer. The Partnership provided £0.001m to reimburse Orkney Islands Council for members' expenses and advertising costs and a further £0.050m towards the costs of travel related projects.

Scottish Government

Scottish Government exerts significant influence through legislation and grant funding. Scottish Government provided grant funding of £0.523m for the Partnership, grant funding of £0.115m for Press'N'Ride rail project, grant funding of £0.127m from the Scottish Green Bus Fund, and £0.002m from the Accessibility Fund towards the costs of road lining and surfacing.

13. 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

31/03/18	31/03/19
£000	£000
10 Not later than one year	10
<u>10</u>	<u>10</u>

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

31/03/18	31/03/19
£000	£000
10 Minimum lease payments	10
<u>10</u>	<u>10</u>

14. Short Term Debtors

2017/18	2018/19
£000	£000
32 Central government bodies	12
148 Other local authorities	80
165 Other entities and individuals	262
<u>345 Total</u>	<u>354</u>

15. Short Term Creditors

2017/18	2018/19
£000	£000
133 Central government bodies	7
25 Other local authorities	174
207 Other entities and individuals	63
<u>365 Total</u>	<u>244</u>

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16. Financial Instruments Balances

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

Financial Assets

Current			Total	Current			Total
Investments	Debtors			Investments	Debtors		
31 March	31 March	31 March		31 March	31 March	31 March	
2018	2018	2018		2019	2019	2019	
£000	£000	£000		£000	£000	£000	
285	51	336	Amortised cost	301	24	325	
285	51	336	Total Financial Assets	301	24	325	
-	23	23	Non-financial assets	-	29	29	
285	74	359	Total Assets	301	53	354	

Non-financial assets held under current debtors consist of prepayments.

Financial Liabilities

Current				Current			Total
Creditors				Borrowings	Creditors		
31 March				31 March	31 March	31 March	
2018				2019	2019	2019	
£000				£000	£000	£000	
214	Amortised cost			119	221	340	
214	Total Financial Liabilities			119	221	340	
151	Non-financial liabilities			-	23	23	
365	Total Liabilities			119	244	363	

Non-financial liabilities held under current creditors consist of receipts in advance.

Financial Instrument Gains and Losses

2017/18 Surplus or Deficit on the Provision of Services £000	Interest Expense	2018/19 Surplus or Deficit on the Provision of Services £000
32		21

17. Contingent Liability

When the LGPS benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service

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schemes) as well. The UK Government has requested leave to appeal to the Supreme Court and is expected to hear later in 2019 if this will be granted. The impact is therefore still highly uncertain, as two opposing outcomes are possible:

1. The Supreme Court overturns the previous ruling and benefits remain as they are, with the underpin only applying as had been previously allowed for in actuarial valuations.
2. The Government's request for appeal is rejected, or the Supreme Court upholds the existing judgement, and benefits accrued from 2015 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this outcome, there would likely be a retrospective increase to members' benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying the impact of outcome 2 at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

18. Events after Reporting Period

The unaudited Annual Accounts were issued by the Treasurer on 27 June 2019 and the audited Annual Accounts were authorised for issue on 13 September 2019. 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 2019, the figures in the Annual Accounts and notes have been adjusted in all material respects to reflect the impact of this information.