

**The Highlands and Islands  
Transport Partnership  
Financial Statements**

**2010 - 2011**

## CONTENTS

EXPLANATORY FOREWORD BY THE TREASURER TO THE PARTNERSHIP .....	3
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS .....	7
STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL .....	8
REMUNERATION REPORT .....	9
<b><u>FINANCIAL STATEMENTS</u></b>	
MOVEMENTS IN RESERVES STATEMENT 2010/11 .....	12
MOVEMENTS IN RESERVE STATEMENT 2009/10 .....	13
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT .....	14
BALANCE SHEET .....	15
CASH FLOW STATEMENT .....	16
ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS .....	17
INDEPENDENT AUDITOR'S REPORT .....	40

## **EXPLANATORY FOREWORD BY THE TREASURER TO THE PARTNERSHIP**

### **Introduction**

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

The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport Scotland Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other Partnerships. These Strategies must take account of future needs and set priorities for transport development and improvement, and will set the framework for investment in strategic transport infrastructure and services for the next 15 to 20 years.

The Strategy was submitted to the Scottish Government in June 2007. The Partnership commenced working towards implementing the Strategy in 2007/08 and continued in 2008/09, 2009/10 and 2010/11. 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 target with progress being identified as part of ongoing reporting processes.

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

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

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

Operational control of the Partnership is the responsibility of the Partnership Director who receives financial and computing support from The Highland Council and administrative support from Comhairle Nan Eilean Siar.

### **Statement of Accounts**

The Statement of Accounts reports on the financial performance of the Highlands and Islands Transport Partnership for the year ended 31 March 2011.

The Statement of Accounts (the Accounts) comprise:

#### **Movement in Reserves Statement**

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

Comprehensive Income and Expenditure Statement

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

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'.

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.

Accounting Policies and Notes to the Accounts

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

Going Concern

Note 20 to the Accounts shows that the Partnership has a net pension liability of £0.152m as at 31 March 2011 (31 March 2010 - £0.338m) due to the accrual of pension liabilities 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.

**Summary of financial results**

The Partnership's financial results for the year, compared against budget, are as shown below. This presentation differs slightly from that shown in the Comprehensive Income and Expenditure Statement which discloses corporate and democratic core costs and non-distributed costs as required by BVACOP. A reconciliation can be found in Note 15.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**Budget Performance Statement  
For the year ended 31 March 2011**

	<b>2010/11</b>		
	Budget £000	Actual £000	Variance £000
Staff costs	281	271	(10)
Property costs	20	20	-
Travel and subsistence costs	35	34	(1)
Administration and meeting costs	52	43	(9)
Research and strategy development costs	507	507	-
Publicity costs	25	31	6
European projects costs	-	302	302
Support services	31	28	(3)
<b>Gross expenditure</b>	<b>951</b>	<b>1,236</b>	<b>285</b>
Government grants	(751)	(706)	45
Other grants	-	(264)	(264)
Other income	-	(66)	(66)
Interest on revenue balances	-	-	-
<b>Gross income</b>	<b>(751)</b>	<b>(1,036)</b>	<b>(285)</b>
<b>Net expenditure</b>	<b>200</b>	<b>200</b>	<b>-</b>
<b>Requisition Income</b>		<b>200</b>	<b>-</b>
<b>Transfer to Balances</b>		<b>-</b>	<b>-</b>

The net budgeted expenditure of the Partnership in 2010/11 was £0.200m (2009/10 - £0.200m). The actual expenditure to be met by the constituent authorities is £0.200m (2009/10 - £0.218m). Overall the budget balanced for the year (2009/10 - £0.018m overspend).

The main feature of the budget performance in 2010/11 was an overspend in European projects. This was in respect of expenditure incurred on two part-funded European projects, Seamless Travel across the Atlantic area Regions using Sustainable Transport (START) and Sustainable Transport in Rural Tourism (Giant Puffin).

The overspend has been offset by an increase in other grant income from the START and Giant Puffin projects, and a contribution from Argyll and Bute Council towards the START project, and contributions from the North East of Scotland Transport Partnership (NESTRANS) for joint project working on transport strategy work, both included in other income.

All government grants in respect of 2010/11 were received in the financial year. The variance relates to committed expenditure at the end of the financial year which will be met by carrying forward the unused government grant, as permitted by the awarding body.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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 Partnership's allocation of net expenditure between the constituent authorities remained unchanged for 2010/11. The allocation is based 50% on voting weight and 50% on population share. For 2010/11 the net expenditure has been allocated as follows:

2009/10		Constituent Authority	2010/11	
£000	% share		£000	% share
97	44.5	The Highland Council	89	44.5
50	23.0	Moray Council	46	23.0
32	14.5	Argyll and Bute Council	29	14.5
21	9.5	Comhairle Nan Eilean Siar	19	9.5
18	8.5	Orkney Islands Council	17	8.5
218	100.0	Total	200	100.0

**Statement of Requisitions 2010/11**

Constituent Authority	Budget requisition £000	Actual requisition £000	Balance due to constituent authority £000
Highland Council	89	89	0
Moray Council	46	46	0
Argyll and Bute Council	29	29	0
Comhairle Nan Eilean Siar	19	19	0
Orkney Islands Council	17	17	0
Total	200	200	0

There has been no movement on the Partnership's revenue reserves.



Alan Geddes  
Treasurer  
22 June 2011

**STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF 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 economy, efficiency and effective use of resources and safeguard its assets.

**The Treasurer's Responsibilities**

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

In preparing this Statement of Accounts, the Treasurer:-

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

The Treasurer has also:-

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

I, Alan Geddes, Treasurer to the Partnership, state that the Accounts for the year ended 31 March 2011 give a true and fair view of the financial position of the authority as at that date and its income and expenditure for the year then ended.



Alan Geddes  
Treasurer  
22 June 2011

## STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for the Highlands and Islands Transport Partnership for the year ended 31 March 2011. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by 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 Partnership utilises the financial systems of The Highland Council. These systems are subject to internal audit review during the year. There were no significant findings in this work that would impact on the work of the Partnership during 2010/11.

My 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.

It is my opinion, based on the above information, that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system in the year to 31 March 2011.



Alan Geddes  
Treasurer  
22 June 2011



## REMUNERATION REPORT

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

### 1. Appointments

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

### 2. Remuneration Policy

#### 2.1 Senior Employees

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

#### 2.2 Senior Councillors

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

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

### 3. Remuneration

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

Name and Post Title	Salary, Fees and Allowances	Taxable Expenses	Total Remuneration 2010-2011	Total Remuneration 2009-10
	£	£	£	£
David Duthie, Partnership Director	73,731	812	74,543	72,977
<b>Total</b>	<b>73,731</b>	<b>812</b>	<b>74,543</b>	<b>72,977</b>

The senior employee included in the table includes any employee:

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

### 3.2 Remuneration by Pay Band

Analysis of Employees Earning Over £50,000

Salary Band	2010-2011 Number	2009-2010 Number
£50,000-£54,999		
£55,000-£59,999		
£60,000-£64,999		
£65,000-£69,999		
£70,000-£74,999	1	1

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

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

Councillor Name & Responsibility	2010-11			2009-10
	Salary, Fees and Allowances	Taxable Expenses	Non-cash expenses & benefits- in-kind	Total Remuneration 2009-10
	£	£	£	£
D MacIntyre - Chair	-	-	-	-
J Laing – Vice Chair	-	-	-	-
<b>Total</b>	-	-	-	-

### 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	2010-2011	2009-2010
	£	£
Expenses	4,589	3,313
<b>Total</b>	<b>4,589</b>	<b>3,313</b>

The annual return of Councillors' salaries and expenses for 2010-2011 is available for any member of the public to view at all public offices and is also available on the Constituent Council's (Highland Council; Moray Council; Argyll and Bute Council; Comhairle Nan Eilean Siar; and Orkney Islands Council) website.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**4. Pension Benefits**

The pension entitlement of the senior employee for the year to 31 March 2011 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 2011	For year to 31 March 2010		As at 31 March 2011	Difference from March 2010
	£	£		£000	£000
David Duthie, Partnership Director	14,538	18,595	Pension Lump Sum	35 98	2 2
<b>Total</b>	<b>14,538</b>	<b>18,595</b>		<b>133</b>	<b>4</b>

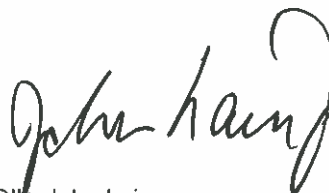
The senior employee shown in the table above is a member of the Local Government Pension Scheme (LGPS) which is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The contribution rates are as follows:

On earning up to £18,000	5.5%
On earning above £18,000	7.25%
On earning above £22,000	8.5%
On earning above £30,000	9.5%
On earning above £40,000	12%



David Duthie  
Partnership Director  
22 June 2011



Clk. John Laing  
Vice-Chairman  
22 June 2011

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**MOVEMENTS IN RESERVES STATEMENT 2010/11**

	General Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2010 brought forward</b>	-	-	(342)	(342)
<b>Movement in reserves during 2010/11</b>				
Surplus/(deficit) on provision of services	63	63	-	63
Other Comprehensive Expenditure and Income	-	-	123	123
<b>Total Comprehensive Expenditure and income</b>	<b>63</b>	<b>63</b>	<b>123</b>	<b>186</b>
Adjustments between accounting basis and funding basis under regulations (note 6)	(63)	(63)	63	-
<b>Net Increase/(Decrease) before Transfers to Earmarked and Other Statutory Reserves</b>	-	-	186	186
Increase/(Decrease) in 2010/11	-	-	186	186
<b>Balance at 31 March 2011 carried forward</b>	-	-	(156)	(156)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**MOVEMENTS IN RESERVE STATEMENT 2009/10**

	General Fund £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2009</b>	0	0	(104)	(104)
<b>Movement in reserves during 2009/10</b>				
Surplus/(deficit) on provision of services	13	13	-	13
Other Comprehensive Expenditure and Income	-	-	(251)	(251)
<b>Total Comprehensive Expenditure and income</b>	13	13	(251)	(238)
Adjustments between accounting basis and funding basis under regulations (note 6)	(12)	(12)	12	-
<b>Net Increase/(Decrease) before Transfers to Earmarked and Other Statutory Reserves</b>	1	1	(239)	(238)
Transfers to/from Earmarked Reserves (note 7)	-	-	-	-
Transfers to/from Other Statutory Reserves (note 6)	(1)	(1)	1	-
<b>Increase/(Decrease) in 2009/10</b>	-	-	(238)	(238)
<b>Balance at 31 March 2010 carried forward</b>	-	-	(342)	(342)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

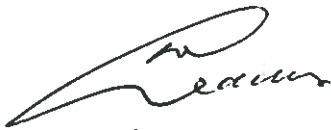
	2009/10		2010/11		
	Gross Expenditure £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
	1,481	171	1,114	(1,009)	105
	54	27	54	(27)	27
	<b>1,535</b>	<b>(1,337)</b>	<b>1,168</b>	<b>(1,036)</b>	<b>132</b>
	198				
<b>Cost of services</b>					
Financing and investment income and expenditure (note 9)	7				5
Taxation and non-specific grant income (note 10)	(218)				(200)
<b>(Surplus)/deficit on provision of services (note 15)</b>	<b>(13)</b>				<b>(63)</b>
Actuarial (gains)/losses on pension assets/liabilities	251				(123)
	<b>238</b>				<b>(186)</b>
<b>Total comprehensive income and expenditure</b>					<b>(186)</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**BALANCE SHEET**

01/04/09 £000	31/03/10 £000		Notes	31/03/11 £000
222	299	Short term debtors	23	434
145	-	Cash and cash equivalents	13	-
		Assets held for sale		
<u>367</u>	<u>299</u>	<b>Current assets</b>		<u>434</u>
-	(147)	Short term borrowing	13	(93)
(372)	(156)	Short term creditors	24	(345)
-	-	Provisions		-
<u>(372)</u>	<u>(303)</u>	<b>Current liabilities</b>		<u>(438)</u>
(99)	(338)	Other long term liabilities	20	(152)
<u>(99)</u>	<u>(338)</u>	<b>Long term liabilities</b>		<u>(152)</u>
<u>(104)</u>	<u>(342)</u>	<b>Net assets</b>		<u>(156)</u>
(104)	(342)	Unusable reserves	12	(156)
<u>(104)</u>	<u>(342)</u>	<b>Total reserves</b>		<u>(156)</u>

The unaudited financial statements were authorised for issue on 22 June 2011 and the audited financial statements were authorised for issue on 28 September 2011.



Alan Geddes  
Treasurer  
22 June 2011

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**CASH FLOW STATEMENT**

31/03/10 £000	Notes	31/03/11 £000
(13) Net (surplus)/deficit on the provision of services		(63)
Adjust net (surplus)/deficit on the provision of services for non-cash movements		117
(279) Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities		-
(292) Net cash flow from operating activities		54
145 Cash and cash equivalents at the beginning of the year		(147)
(147) Cash and cash equivalents at the end of the year	13	(93)



## ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### General principles

The Statement of Accounts summarises the transactions of the Partnership for the 2010/11 financial year and its position at the year end of 31 March 2011. The Partnership is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost.

#### Accruals of income and expenditure

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

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

#### Cash and cash equivalents

The Highland Council loans fund provides all the day to day banking requirements of the Partnership. The balance of £0.093m (2009/10 £0.147m) represents the negative balance in Partnership funds that temporarily sits with the Highland Council loans fund.

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

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

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

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

### **Employee benefits**

#### **Benefits payable during employment**

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

#### **Termination benefits**

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

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

#### **Post Employment Benefits**

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

Local Government Pension Scheme

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

- The liabilities of the Highland Council Pension Fund attributable to the Partnership are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on the iBOxx AA rated over 15 year corporate bond index)
- The assets of the Highland Council Pension Fund attributable to the 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 seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Partnership, based on the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains/losses on settlements and curtailments – the result of actions to relieve the Partnership of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Highland Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the 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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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 Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

#### Exceptional items

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

#### 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 Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

## **Leases**

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

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

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

The Partnership as Lessee

### **Operating Leases**

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

## **Property, plant and equipment**

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

## **Overheads and support services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

## **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.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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**

Certain reserves are kept to manage the accounting processes for employee benefits and retirement benefits, and do not represent usable resources for the Partnership – these reserves are explained in note 12 to the accounts.

#### **VAT**

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

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

There are none that apply to the Partnership.

## 3. Critical judgements in applying accounting policies

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

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

## 4. Adoption of International Financial Reporting Standards

Reconciliation of net worth reported under previous GAAP (Generally Accepted Accounting Principles) to net worth under IFRS at date of transition to IFRS

	Notes	As at 31 March 2010	As at 1 April 2009
		£000	£000
<b>Net Assets and Equity under UK GAAP</b>		<b>(338)</b>	<b>(99)</b>
IAS 19 Employee Benefits	(a)	(4)	(5)
<b>Net Assets and Equity under IFRS</b>		<b>(342)</b>	<b>(104)</b>

		Movement 2009/10
		£000
Net Cost of Services under UK GAAP		(12)
IAS 19 Employee Benefits	(a)	(1)
Actuarial Losses on Pension Fund Assets and Liabilities	(b)	251
<b>Net Cost of Services under IFRS</b>		<b>238</b>

### (a) IAS 19 – Employee Benefits

Previously no provision was made for holiday pay. Under IAS 19 - Employee Benefits the expected cost of compensated short term absences (e.g. holidays) should be recognised when an employee or employees render the service that increases their entitlement. As a result, an accrual has been made for holidays earned but not taken.

### (b) Actuarial Losses on Pension Fund Assets and Liabilities

Previously this was shown in the Statement of Total Recognised Gains and Losses.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 items in the Partnership's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Partnership with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways. During 2010/11, the Partnership's actuaries advised that the net pensions liability had decreased by £0.186m attributable to updating of the assumptions.</p>



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**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 Authority to meet future capital and revenue expenditure.

Movement in unusable reserves £000	Total 2009/10 £000		Movement in unusable reserves £000	Total 2010/11 £000
<b>Adjustments involving the Pensions Reserve</b>				
		Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 20)		
(12)	(12)		(63)	(63)
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account</b>				
		Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		
(1)	(1)		-	-
<u>(13)</u>	<u>(13)</u>	<b>Total adjustments</b>	<u>(63)</u>	<u>(63)</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**7. Movements in Reserve Statement – transfers to/from earmarked reserves**

Legislation does not allow the Partnership to hold reserves, therefore the General Fund Balance will always be £nil.

**8. Comprehensive Income and Expenditure Statement – Corporate and democratic core costs**

Corporate and democratic core costs include the costs of democratic representation and management relating to corporate policy making and all other elected member based activities. It also includes the costs of corporate management relating to the activities of the general running of the Partnership.

2009/10 Net £000		Expenditure £000	2010/11 Income £000	Net £000
7	Democratic representation and management	14	(7)	7
20	Corporate management	40	(20)	20
<u>27</u>	<b>Total</b>	<u>54</u>	<u>(27)</u>	<u>27</u>

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

2009/10 £000		2010/11 £000
	- Interest payable and similar charges	-
7	Pensions interest cost and expected return on pension assets	5
	- Interest and investment income	-
<u>7</u>		<u>5</u>

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

2009/10 £000		2010/11 £000
(218)	Requisitions from constituent authorities	(200)
<u>(218)</u>		<u>(200)</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**11. Balance Sheet – usable reserves**

Movements in the Partnership's usable reserves are detailed in the Movement in Reserves Statement and notes 6 and 7.

**12. Balance Sheet – unusable reserves**

31/3/2010 £000		31/3/2011 £000
338	Pensions reserves (a)	152
4	Accumulated compensated absences adjustment account (b)	4
<u>342</u>	<b>Total unusable reserves</b>	<u>156</u>

(a) Pensions Reserve

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

2009/10 £000		2010/11 £000
99	Balance at 1 April	338
251	Actuarial (gains)/losses on pension assets and liabilities	(123)
20	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	(39)
(32)	Employer's pension contributions and direct payments to pensioners payable in the year	(24)
<u>338</u>	<b>Balance at 31 March</b>	<u>152</u>

(b) Accumulated compensated absences adjustment account

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

2009/10 £000		2010/11 £000
5	Balance at 1 April	4
(5)	Settlement or cancellation of accrual made at the end of the preceding year	(4)
4	Amounts accrued at the end of the current year	4
<u>4</u>	<b>Balance at 31 March</b>	<u>4</u>

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

The balances of cash and cash equivalents comprise:

01/04/09 £000	31/03/10 £000		2010/11 £000
145	-	Temporary Advances to Loans Fund	-
-	(147)	Temporary Advances from Loans Fund	(93)
<u>145</u>	<u>(147)</u>	<b>Total cash and cash equivalents</b>	<u>(93)</u>

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

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

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

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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

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

2009/10 £000		2010/11 £000
218	Net expenditure in the service analysis	200
-	Net expenditure of services and support services not included in the analysis	-
(20)	<i>Amounts in the Comprehensive Income and Expenditure relating to Non Statutory Charges</i>	
	<u>IAS 19 pension benefits net charges made to the Comprehensive Income and Expenditure Statement</u>	
	Current service cost	26
	Employer's contribution	(24)
	Past service cost	(70)
	Settlements and Curtailments	-
		<u>(68)</u>
<u>198</u>	<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<u>132</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**Reconciliation to subjective analysis**

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

<b>2010/11</b>	Service analysis £000	Non Statutory Charges £000	<b>Total £000</b>
Government grants and contributions	706	-	<b>706</b>
Other grants	264	-	<b>264</b>
Other income	66	-	<b>66</b>
Interest and investment income	-	-	-
Income from requisitions	200	-	<b>200</b>
<b>Total Income</b>	<b>1,236</b>	-	<b>1,236</b>
Staff costs	271	(63)	<b>208</b>
Property costs	20	-	<b>20</b>
Travel and subsistence costs	34	-	<b>34</b>
Administration and meeting costs	43	-	<b>43</b>
Research and strategy development costs	507	-	<b>507</b>
Publicity costs	31	-	<b>31</b>
European projects costs	302	-	<b>302</b>
Support services	28	-	<b>28</b>
<b>Total expenditure</b>	<b>1,236</b>	<b>(63)</b>	<b>1,173</b>
<b>(Surplus)/deficit on the provision of services</b>	-	<b>(63)</b>	<b>63</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

<b>2009/10 comparative figures</b>	Service analysis £000	Non Statutory Charges £000	Total £000
Government grants and contributions	1,228	-	1,228
Other grants	92	-	92
Other income	17	-	17
Interest and investment income	-	-	-
Income from requisitions	218	-	218
<b>Total Income</b>	<b>1,555</b>	<b>-</b>	<b>1,555</b>
Staff costs	271	(13)	258
Property costs	13	-	13
Travel and subsistence costs	35	-	35
Administration and meeting costs	40	-	40
Research and strategy development costs	1,044	-	1,044
Publicity costs	31	-	31
European projects costs	92	-	92
Support services	29	-	29
<b>Total expenditure</b>	<b>1,555</b>	<b>-</b>	<b>1,542</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>-</b>	<b>(13)</b>	<b>13</b>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**16. Members allowances and expenses**

A breakdown of allowances and expenses paid to members of the Partnership can be found in the Remuneration Report.

**17. Officers remuneration**

A breakdown of the number of employees receiving remuneration above £50,000, including redundancy and retirement pay where appropriate, can be found in the Remuneration Report.

**18. External audit costs**

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

2009/10 £000		2010/11 £000
	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the	
10	year	9
-	Fees payable in respect of other services provided by the appointed auditor during the year	-
<u>10</u>		<u>9</u>

**19. Grant income**

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

2009/10 £000		2010/11 £000
	Seamless Travel across the Atlantic area Regions using Sustainable Transport (START) – European transport project	
92		248
-	Sustainable Transport in Rural Tourism (Giant Puffin) – European transport and tourism project	16
<u>92</u>		<u>264</u>

**20. Defined benefit pension schemes**

**Participation in pension schemes**

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

The authority participates in one post employment scheme:

- The Local Government Pension Scheme, administered locally by the Highland Council Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.



THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Partnership's liabilities and has been recognised as a past service gain in accordance with guidance set down in UTIF Abstract 48: the change is considered to be a change in benefit entitlement.

**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 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.

2009/10 £000		2010/11 £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Cost of services</i>	
13	Current service cost	26
-	Past service cost	(70)
-	Settlements and curtailments	-
13		(44)
	<i>Financing and investment income and expenditure</i>	
40	interest cost	60
(33)	expected return on scheme assets	(55)
7		5
20	Total post employment benefits charged to the surplus or deficit on the provision of services	(39)
	<i>Other post employment benefits charged to the comprehensive income and expenditure statement</i>	
251	actuarial gains and losses	(123)
271	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	(162)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

2009/10 £000		2010/11 £000
<b>Movement in reserves statement</b>		
<u>(20)</u>	Reversal of net charges made to the Comprehensive Income and Expenditure Statement	<u>39</u>
<i>Actual amount charged against the General Fund balance for pensions in the year</i>		
<u>32</u>	Employers contributions payable to the scheme	<u>24</u>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a gain of £0.123m (31 March 2010 – loss of £0.251m).

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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

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

31/03/10		31/03/11
£000		£000
579	Opening value	1,065
13	Current service cost	26
40	Interest cost	60
421	Actuarial loss/(gain)	(117)
12	Contributions by scheme participants	11
-	Past service cost	(70)
1,065	Closing value	<b>975</b>

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

31/03/10		31/03/11
£000		£000
480	Opening value	727
33	Expected return on Scheme assets	55
170	Actuarial (loss)/gain	6
32	Contributions by employer	24
12	Contributions by Scheme participants	11
727	Closing value	<b>823</b>

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

The actual return on scheme assets in the year was £0.061m. (2009/10 £0.203m)

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**Scheme history**

Year ended	31/03/11	31/03/10	31/03/09	31/03/08	31/03/07
	£000	£000	£000	£000	£000
Present value of liabilities	(975)	(1,065)	(579)	(368)	(49)
Fair value of assets	823	727	480	373	30
Deficit	(152)	(338)	(99)	5	(19)

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

The liabilities show the underlying commitments that the Partnership has in the long run to pay post employment (retirement) benefits. The total liability of £975m has a substantial impact on the net worth of the Partnership as recorded in the Balance Sheet, resulting in a negative overall balance of £0.156m. However, statutory arrangements for funding the deficit mean that the financial position of the Partnership remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e., before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Partnership in the year to 31 March 2012 is £0.024m.

**Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the Highland Council Pension Fund being based on the latest full valuation of the scheme as at 1 April 2008.

The principal actuarial assumptions adopted as at 31 March 2011 are as follows:

	2009/10	2010/11
<b>Long term expected rate of return on assets in the scheme</b>		
7.9%	Equity investments	7.8%
4.5%	Gilts	4.4%
5.5%	Bonds	5.5%
5.9%	Property	5.8%
3.0%	Cash	3.0%
<b>Longevity at age 65 for current pensioners</b>		
18.9	Men	18.9
21.9	Women	21.9
<b>Longevity at age 65 for future pensioners</b>		
19.9	Men	19.9
23.0	Women	23.0

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

Financial Assumptions

2009/10		2010/11
3.9%	Rate of inflation	3.5%
5.4%	Rate of increase in salaries	5.0%
3.9%	Rate of increase in pensions	2.7%
5.5%	Rate for discounting scheme liabilities	5.5%
50.0%	Take up of option to convert annual pension into retirement lump sum	50.0%

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

2009/10		2010/11
79%	Equities	79%
5%	Gilts	5%
7%	Bonds	6%
8%	Property	9%
1%	Cash	1%
100%	Total	100%

**History of experience gains and losses**

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011

	2010/11	2009/10	2008/09	2007/08	2006/07
	%	%	%	%	%
Differences between the expected and actual return on assets	-	-	(48.2)	-	(2.0)
Experience gains and losses on liabilities	0.7	23.4	11.9	(6.7)	3.3

**21. 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 £0.089m representing 44.5% of the funding for the Partnership and holds 3 of the 8 votes on the Board. In addition Highland Council provides financial and computing services to the Partnership.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**Moray Council**

Moray Council provided £0.046m representing 23.0% of the funding for the Partnership and holds 2 of the 8 votes on the Board.

**Argyll and Bute Council**

Argyll and Bute Council provided £0.029m representing 14.5% of the funding for the Partnership and holds 1 of the 8 votes on the Board.

**Comhairle Nan Eilean Siar**

The Comhairle Nan Eilean Siar provided £0.019m representing 9.5% of the funding for the Partnership and holds 1 of the 8 votes on the Board. Comhairle Nan Eilean Siar provides administrative, personnel and legal services to the Partnership.

**Orkney Islands Council**

Orkney Islands Council provided £0.017m representing 8.5% of the funding for the Partnership and holds 1 of the 8 votes on the Board.

**22. 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

31/03/10 £000		31/03/11 £000
3	Not later than one year	3
<u>3</u>		<u>3</u>

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

31/03/10 £000		31/03/11 £000
10	Minimum lease payments	10
<u>10</u>		<u>10</u>

**23. Debtors**

01/4/09 £000	31/03/10 £000		2010/11 £000
217	177	Central government bodies	96
4	18	Other local authorities	50
-	-	Public corporations	3
1	104	Other entities and individuals	285
<u>222</u>	<u>299</u>	Total	<u>434</u>

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

**24. Creditors**

01/04/09	31/03/10		2010/11
£000	£000		£000
22	6	Central government bodies	148
39	25	Other local authorities	29
-	1	Public corporations	-
311	124	Other entities and individuals	168
<u>372</u>	<u>156</u>	Total	<u>345</u>

**25. Events After The Balance Sheet Date**

The Statement of the Accounts was authorised for issue by the Treasurer on 22 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Events after the date of the balance sheet (31 March 2011) up to the date of issue have been considered in preparing these accounts.

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF ACCOUNTS 2010/11

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

I certify that I have audited the financial statements of Highlands and Islands Transport Partnership for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, and Cash-Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

**Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities [set out on page 7 of the accounts], the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Explanatory Foreword and the Remuneration Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of Highlands and Islands Transport Partnership as at 31 March 2011 and of the income and expenditure of Highlands and Islands Transport Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.



**Opinion on other prescribed matters**

In my opinion:

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

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

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2010/11 Code; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

*M. Tate*

Pearl Tate  
Senior Audit Manager  
Audit Scotland  
Osborne House  
1/5 Osborne Terrace  
Edinburgh  
EH12 5HG

28 September 2011

