

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

**2013 - 2014**

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## **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, 2010/11, 2011/12, 2012/13 and 2013/14. The Strategy is intended to be a live document, and needs to be reviewed and updated over its 15 year lifespan. The Partnership has prepared a monitoring strategy which includes setting both interim and final targets with progress being identified as part of ongoing reporting processes.

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

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

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

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

### **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 2014.

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.

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Comprehensive Income and Expenditure Statement

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

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 15 to the Core Statements details the income and expenditure charged to the income and expenditure account under IAS 19 in respect of the Local Government Scheme, based upon assessments provided by the Actuary to the Scheme. The Balance Sheet on Page 17 shows that the Partnership has an excess of liabilities over assets of £0.241m as at 31 March 2014 (31 March 2013 - £0.163m) 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.

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Economic Climate

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. Reduced funding from, and reduced capital spend, by constituent authorities will place considerable pressure on the Partnership's ability to provide services and ensure delivery of its Regional Transport Strategy by 2022. A core aim of the Partnership is to support its partner Local Authorities, Scottish Government and other key public and private sector partners in delivering improved transport services across the Highlands and Islands. The Partnership will continue to work hard to attract external funding and focus on a partnership approach to delivery.

**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 as required by the Service Reporting Code of Practice (SerCOP). A reconciliation can be found in Note 12.

**Budget Performance Statement  
For the year ended 31 March 2014**

	<b>2013/14</b>		
	Budget £000	Actual £000	Variance £000
Staff costs	317	284	(33)
Property costs	16	18	2
Travel and subsistence costs	35	31	(4)
Administration and meeting costs	43	47	4
Research and strategy development costs	701	567	(134)
Publicity costs	10	11	1
European projects costs	280	345	65
Support services	29	26	(3)
	1,431	1,329	(102)
<b>Gross expenditure</b>			
Government grants	(914)	(749)	165
Other grants	(317)	(325)	(8)
Other income	-	(65)	(65)
Interest on revenue balances	-	-	-
<b>Gross income</b>	(1,231)	(1,139)	92
<b>Net expenditure</b>	200	190	(10)
Committed expenditure carried forward		10	10
		200	-
<b>Requisition Income</b>		200	-
<b>Transfer to Balances</b>		-	-

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The net budgeted expenditure of the Partnership in 2013/14 was £0.200m (2012/13 - £0.200m). The actual expenditure to be met by the constituent authorities is £0.200m (2012/13 - £0.200m). Overall the budget balanced for the year (2012/13 - £0.000m). The main variations from budget during the year were as follows:

- The appointment of the Active Travel Project Officer in October has resulted in an underspend as the budget was for a full year's salary cost and was set too high at the outset.
- Included in research and strategy development costs is expenditure of £0.200m for the East Inverness Bus Improvement Corridor Project. Due to the grant award notification, and the close proximity to the end of the financial year, there was insufficient time to utilise the full grant allocation of £0.365m in 2013/14. Included in other income is £0.014m of third party contributions to project work.
- European projects, Sustainable Travel in Rural Tourism (Giant Puffin) and Connecting Food Port Regions – Between and Beyond (Lifting the Spirit), overspent the budget, however included in other income is £0.050m of third party contributions to the projects.
- The bulk of the shortfall in government grants relates to the Bus Investment Fund grant of £0.365m for the East Inverness Bus Improvement Corridor Project. The unspent element is available to carry forward to 2014/15.

All government grants in respect of 2013/14 were received in the financial year with the exception of the grant from the Bus Investment Fund. The committed expenditure at the end of the financial year will be met by carrying forward the unused government grant, as permitted by the awarding body.

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 2013/14. The allocation is based 50% on voting weight and 50% on population share. For 2013/14 the net expenditure has been allocated as follows:

2012/13		Constituent Authority	2013/14	
£000	% share		£000	% share
89	44.5	The Highland Council	89	44.5
46	23.0	Moray Council	46	23.0
29	14.5	Argyll and Bute Council	29	14.5
19	9.5	Comhairle Nan Eilean Siar	19	9.5
17	8.5	Orkney Islands Council	17	8.5
<b>200</b>	<b>100.0</b>	<b>Total</b>	<b>200</b>	<b>100.0</b>

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**Statement of Requisitions 2013/14**

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

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

**Acknowledgement**

I conclude my report by thanking the staff of my service for their support during the year and my colleagues in other services and the Highland and Islands Transport Partnership for their continued co-operation.



Derek Yule B.Com, CPFA, IRRV(Hons)  
Treasurer  
3 June 2014

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**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 2013/14 (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, Derek Yule, Treasurer to the Partnership, state that the Accounts for the year ended 31 March 2014 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.



Derek Yule B.Com, CPFA, IRRV(Hons)  
Treasurer  
3 June 2014



## 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 2014. 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 Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance, regular reports are 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 Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control.

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.

A review of the Partnership's system of internal control was undertaken, consisting of a high level review of the adequacy and effectiveness of the Partnership's system of internal control and targeted testing of key controls, and this confirmed that the main financial systems are operating as expected.

The Partnership uses the Highland Council's financial systems and during the year 2013/14, an audit of the operation of the Accounts Payable system was undertaken. The audit reviewed the processing of orders and invoices for goods and services. The Partnership uses the Council's system and certain functions are provided by the Council (system access, reconciliations and back-ups, and the payment to suppliers). For this year this consisted of budgetary control and assurance in respect the central aspects of the Accounts Payable system undertaken by Highland Council staff. Further assurance was provided from individual audits of the Council's main financial systems. No control issues were identified for the Internal Audit work undertaken and the audit findings will be addressed in the relevant audit reports.

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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, and therefore the Partnership can place reliance upon the effectiveness of the Partnership's internal control systems.

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

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



Derek Yule B.Com, CPFA, IRRV(Hons)  
Treasurer  
3 June 2014

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
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## REMUNERATION REPORT

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

### 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 2013-2014	Total Remuneration 2012-2013
	£	£	£	£
Ranald Robertson, Partnership Director	74,469	0	74,469	29,896
<b>Total</b>	<b>74,469</b>	<b>0</b>	<b>74,469</b>	<b>29,896</b>

Ranald Robertson, Partnership Director from 5 November 2012; full year equivalent salary 2012/13 £73,731.

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	2013-2014 Number	2012-2013 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	2013-14			Total Remuneration 2013-14	2012-13 Total Remuneration 2012-13
	Salary, Fees and Allowances	Taxable Expenses	Non-cash expenses & benefits- in-kind		
	£	£	£	£	£
J Stockan Chair from 8 Nov 2013	-	-	1,220	1,220	634
F Murdoch Vice-Chair from 15 June 2012	-	-	50	50	113
J Semple Chair from 15 June 2012 to 8 Nov 2013	-	-	159	159	1285
<b>Total</b>	-	-	1,429	1,429	2,032

### 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	2013-2014	2012-2013
	£	£
Salaries	-	-
Allowances	-	-
Expenses	3,109	4,349
<b>Total</b>	<b>3,109</b>	<b>4,349</b>

The annual return of Councillors' salaries and expenses for 2013-2014 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 2014 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 2014	For year to 31 March 2013		As at 31 March 2014	Difference from March 2013
	£	£		£000	£000
Ranald Robertson, Partnership Director	12,809	9,810	Pension Lump Sum	15 28	5 8
<b>Total</b>	<b>12,809</b>	<b>9,810</b>		<b>43</b>	<b>13</b>

The senior employees shown in the table above are members 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.



Ranald Robertson  
Partnership Director  
3 June 2014



Cllr. James Stockan  
Chair  
3 June 2014

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
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**MOVEMENTS IN RESERVES STATEMENT 2013/14**

	General Fund £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2013 brought forward</b>	-	-	(163)	(163)
<b>Movement in reserves during 2013/14</b>				
Surplus/(deficit) on provision of services (accounting basis)	(42)	(42)	-	(42)
Other Comprehensive Expenditure and Income	-	-	(34)	(34)
<b>Total Comprehensive Expenditure and income</b>	(42)	(42)	(34)	(76)
Adjustments between accounting basis and funding basis under regulations (note 5)	44	44	(44)	(2)
<b>Net Increase/(Decrease) before Transfers to Statutory Reserves</b>	2	2	(78)	(78)
Increase/(Decrease) in 2013/14	2	2	(78)	(78)
<b>Balance at 31 March 2014 carried forward</b>	-	-	(241)	(241)

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**MOVEMENTS IN RESERVES STATEMENT 2012/13 (restated)**

	General Fund £000	<b>Total Usable Reserves £000</b>	Unusable Reserves £000	<b>Total Reserves £000</b>
<b>Balance at 31 March 2012 brought forward</b>	-	-	(182)	<b>(182)</b>
<b>Movement in reserves during 2012/13</b>				
Surplus/(deficit) on provision of services (accounting basis)	(20)	<b>(20)</b>	-	<b>(20)</b>
Other Comprehensive Expenditure and Income	-	-	39	<b>39</b>
<b>Total Comprehensive Expenditure and income</b>	<b>(20)</b>	<b>(20)</b>	<b>39</b>	<b>19</b>
Adjustments between accounting basis and funding basis under regulations (note 5)	20	<b>20</b>	(20)	-
<b>Net Increase/(Decrease) before Transfers to Statutory Reserves</b>	-	-	19	<b>19</b>
Increase/(Decrease) in 2012/13	-	-	19	<b>19</b>
<b>Balance at 31 March 2013 carried forward</b>	-	-	<b>(163)</b>	<b>(163)</b>





THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF UNAUDITED ACCOUNTS 2013/14

**BALANCE SHEET**

31/03/13 £000		Notes	31/03/14 £000
82	Short term debtors	18	596
70	Cash and cash equivalents	11	-
<u>152</u>	<b>Current assets</b>		<u>596</u>
	- Short term borrowing	11	(309)
(156)	Short term creditors	19	(293)
	- Provisions		-
<u>(156)</u>	<b>Current liabilities</b>		<u>(602)</u>
(159)	Other long term liabilities	15	(235)
<u>(159)</u>	<b>Long term liabilities</b>		<u>(235)</u>
<u>(163)</u>	<b>Net assets</b>		<u>(241)</u>
(163)	Unusable reserves	10	(241)
<u>(163)</u>	<b>Total reserves</b>		<u>(241)</u>

The unaudited financial statements were authorised for issue on 3 June 2014.



Derek Yule B.Com, CPFA, IRRV(Hons)  
Treasurer  
3 June 2014

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP  
STATEMENT OF UNAUDITED ACCOUNTS 2013/14

**CASH FLOW STATEMENT**

31/03/13 (restated) £000		Notes	31/03/14 £000
20	Net (surplus)/deficit on the provision of services	12	44
(108)	Adjust net (surplus)/deficit on the provision of services for non-cash movements		(421)
-	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities		(2)
<u>(88)</u>	Net cash flow from operating activities		<u>(379)</u>
<u>158</u>	Cash and cash equivalents at the beginning of the year		<u>70</u>
<u><u>70</u></u>	<b>Cash and cash equivalents at the end of the year</b>	11	<u><u>(309)</u></u>

## ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### General principles

The Statement of Accounts summarises the transactions of the Partnership for the 2013/14 financial year and its position at the year end of 31 March 2014. 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 2013/14 and the Service Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

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

#### Accruals of income and expenditure

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

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

#### Cash and cash equivalents

The Highland Council loans fund provides all the day to day banking requirements of the Partnership. The balance of £0.309m (2012/13 £0.070m) represents the negative (2012/13 positive) balance in Partnership funds that temporarily sits with the Highland Council loans fund.

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**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.

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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 4.5% (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 the following components:

Service cost comprising:

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

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

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

Contributions paid to the Highland Council pension fund

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

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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 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



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Income and Expenditure Statement.

**Leases**

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

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

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

The Partnership as Lessee

**Operating Leases**

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

**Property, plant and equipment**

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

**Overheads and support services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Code of Practice 2013/14 (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Partnership's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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

**Provisions, Contingent liabilities and Contingent assets**

**Provisions**

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Partnership becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the

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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 – these reserves are explained in note 10 to the accounts.

#### VAT

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



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

There are 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. 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 only item in the Partnership's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year is the pension liability. The impact of changes in the assumptions used on the pension liability has been assessed by the actuaries and is illustrated in note 15.

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

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

	General Fund £000	Unusable reserves £000	<b>Total 2013/14 £000</b>
<b>Adjustments involving the Pensions Reserve</b>			
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 15)	(85)	85	-
Employers' pension contributions and direct payments to pensioners payable in the year	43	(43)	-
<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	(2)	2	-
<b>Total adjustments</b>	<b>(44)</b>	<b>44</b>	<b>-</b>

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	General Fund £000	Unusable reserves £000	Total 2012/13 £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 15)	(56)	56	-
Employers' pension contributions and direct payments to pensioners payable in the year	36	(36)	-
<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	-	-	-
<b>Total adjustments</b>	<b>(20)</b>	<b>20</b>	<b>-</b>

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

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

2012/13 Net £000		Expenditure £000	2013/14 Income £000	Net £000
7	Democratic representation and management	14	(7)	7
20	Corporate management	42	(21)	21
27	<b>Total</b>	<b>56</b>	<b>(28)</b>	<b>28</b>

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

2012/13 (restated) £000	2013/14 £000
- Interest payable and similar charges	-
9 Pensions interest cost and expected return on pension assets	8
- Interest and investment income	-
9	8

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

2012/13 £000	2013/14 £000
(200) Requisitions from constituent authorities	(200)
(200)	(200)

**9. Balance Sheet – usable reserves**

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

**10. Balance Sheet – unusable reserves**

31/3/2013 £000	31/3/2014 £000
159 Pensions reserves (a)	235
4 Accumulated compensated absences adjustment account (b)	6
163 <b>Total unusable reserves</b>	241

**(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.

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2012/13 (restated) £000		2013/14 £000
178	Balance at 1 April	159
(72)	Return on plan assets (excluding the amount included in the net interest expense)	(23)
33	Actuarial losses arising on changes in financial assumptions	57
(39)		34
56	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	85
(36)	Employer's pension contributions and direct payments to pensioners payable in the year	(43)
<u>159</u>	Balance at 31 March	<u>235</u>

(b) Accumulating compensated absences adjustment account

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

2012/13 £000		2013/14 £000
4	Balance at 1 April	4
(4)	Settlement or cancellation of accrual made at the end of the preceding year	(4)
4	Amounts accrued at the end of the current year	6
<u>4</u>	Balance at 31 March	<u>6</u>

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

The balances of cash and cash equivalents comprise:

31/03/13 £000		31/03/14 £000
70	Temporary Advances to Highland Council Loans Fund	-
-	- Temporary Advances from Highland Council Loans Fund	(309)
<u>70</u>	<b>Total cash and cash equivalents</b>	<u>(309)</u>

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

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Account is that specified by the Service 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

**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

2012/13 £		2013/14 £
200	Net expenditure in the service analysis	200
-	Net expenditure of services and support services not included in the analysis	-
	<i>Amounts in the Comprehensive Income and Expenditure relating to Non Statutory Charges</i>	
	<u>IAS 19 pension benefits net charges made to the Comprehensive Income and Expenditure Statement</u>	
47	Current service cost	77
(36)	Employer's contribution	(43)
-	Past service cost	-
-	Settlements and Curtailments	-
11		34
-	IAS 19 Employee Leave	2
<u>211</u>	<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<u>236</u>

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**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>2013/14</b>	Service analysis £000	Non Statutory Charges £000	<b>Cost of services £000</b>	Corporate Amounts	<b>Total £000</b>
Government grants and contributions	(739)	-	(739)	-	(722)
Other grants	(325)	-	(325)	-	(313)
Other income	(65)	-	(65)	-	(94)
Interest and investment income	-	-	-	-	-
Income from requisitions	-	-	-	(200)	(200)
<b>Total Income</b>	<b>(1129)</b>	<b>-</b>	<b>(1129)</b>	<b>(200)</b>	<b>(1329)</b>
Staff costs	284	36	320	-	320
Property costs	18	-	18	-	18
Travel and subsistence costs	31	-	31	-	31
Administration and meeting costs	47	-	47	-	47
Research and strategy development costs	567	-	567	-	567
Publicity costs	11	-	11	-	11
European projects costs	345	-	345	-	345
Support services	26	-	26	-	26
Pension interest cost and expected return on Pension Assets	-	-	-	8	8
<b>Total expenditure</b>	<b>1329</b>	<b>36</b>	<b>1365</b>	<b>8</b>	<b>1373</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>200</b>	<b>36</b>	<b>236</b>	<b>(192)</b>	<b>44</b>

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<b>2012/13 (restated)</b>	Service analysis £000	Non Statutory Charges £000	<b>Cost of services £000</b>	Corporate Amounts	<b>Total £000</b>
Government grants and contributions	(484)	-	<b>(484)</b>	-	<b>(484)</b>
Other grants	(53)	-	<b>(53)</b>	-	<b>(53)</b>
Other income	(31)	-	<b>(31)</b>	-	<b>(31)</b>
Interest and investment income	-	-	-	-	-
Income from requisitions	-	-	-	(200)	<b>(200)</b>
<b>Total Income</b>	<b>(568)</b>	-	<b>(568)</b>	<b>(200)</b>	<b>(768)</b>
Staff costs	269	11	<b>280</b>	-	<b>280</b>
Property costs	15	-	<b>15</b>	-	<b>15</b>
Travel and subsistence costs	29	-	<b>29</b>	-	<b>29</b>
Administration and meeting costs	44	-	<b>44</b>	-	<b>44</b>
Research and strategy development costs	296	-	<b>296</b>	-	<b>296</b>
Publicity costs	9	-	<b>9</b>	-	<b>9</b>
European projects costs	79	-	<b>79</b>	-	<b>79</b>
Support services	27	-	<b>27</b>	-	<b>27</b>
Pension interest cost and expected return on Pension Assets	-	-	-	9	<b>9</b>
<b>Total expenditure</b>	<b>768</b>	<b>11</b>	<b>779</b>	<b>9</b>	<b>788</b>
<b>(Surplus)/deficit on the provision of services</b>	<b>200</b>	<b>11</b>	<b>211</b>	<b>(191)</b>	<b>20</b>



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**13. 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

2012/13 £000		2013/14 £000
10	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	10
-	Fees payable in respect of other services provided by the appointed auditor during the year	-
<u>10</u>		<u>10</u>

**14. Grant income**

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

2012/13 £000		2013/14 £000
540	Scottish Government – core funding and transport projects	739
-	- Food Port Project (Lifting the Spirit)	144
-	- Active Travel Project	95
42	Sustainable Transport in Rural Tourism (Giant Puffin) – European transport and tourism project	86
<u>582</u>		<u>1,064</u>

**15. Defined benefit pension schemes**

**Participation in pension schemes**

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

The authority participates in one post employment scheme:

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

**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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2012/13 (restated) £000		2013/14  £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<b>Cost of services</b>	
47	Current service cost	77
-	Past service cost (including curtailments)	-
<u>47</u>		<u>77</u>
	<i>Financing and investment income and expenditure</i>	
46	Interest cost	50
(37)	Interest income on plan assets	(42)
<u>9</u>		<u>8</u>
56	<b>Total post employment benefits charged to the surplus or deficit on the provision of services</b>	85
	Other post employment benefits charged to the comprehensive income and expenditure statement	
	<i>Remeasurement of the net defined benefit liability comprising:</i>	
(72)	Return on plan assets (excluding the amount included in the net interest expense)	(23)
33	Actuarial losses arising on changes in financial assumptions	57
<u>17</u>	<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<u>119</u>
	<b>Movement in reserves statement</b>	
(56)	Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(85)
	<b>Actual amount charged against the General Fund balance for pensions in the year</b>	
<u>36</u>	Employers contributions payable to the scheme	<u>43</u>

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

	31/03/14 £000	31/03/13 £000
Present value of the defined benefit obligation	(1,244)	(1,078)
Fair value of pension fund assets	1,009	919
<b>Net liability arising from defined benefit obligation</b>	<u><u>(235)</u></u>	<u><u>(159)</u></u>

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**Information about the defined benefit obligation**

	Liability split		Duration
	£000s	Percentage (%)	
Active members	1,244	100.0%	17.3
Deferred members	-	-	-
Pensioner members	-	-	-
<b>Total</b>	<b>1,244</b>	<b>100.0%</b>	<b>17.3</b>

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

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

31/03/13 (restated) £000		31/03/14 £000
1,054	Opening value	1,078
47	Current service cost	77
46	Interest cost	50
33	Actuarial loss/(gain)	57
(117)	Estimated Benefits paid net of transfers in	(37)
15	Contributions by scheme participants	19
-	Past service cost	-
<u>1,078</u>	Closing value	<u>1,244</u>

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

31/03/13 (restated) £000		31/03/14 £000
876	Opening value	919
37	Expected return on Scheme assets	42
72	Actuarial (loss)/gain	23
36	Contributions by employer	43
15	Contributions by Scheme participants	19
(117)	Estimated Benefits paid net of transfer in and including unfunded	(37)
<u>919</u>	Closing value	<u>1,009</u>

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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:

2012/13 (restated)		2013/14
2%	<b>Cash and cash equivalents</b>	2%
	<b>Equity securities:</b>	
	<i>By Industry type</i>	
12%	Consumer	11%
8%	Manufacturing	8%
6%	Energy and utilities	6%
9%	Financial institutions	10%
3%	Health and Care	3%
7%	Information Technology	7%
2%	Other	2%
	<b>Debt securities:</b>	
	<i>By sector</i>	
13%	Corporate	12%
7%	Government	7%
1%	<b>Private Equity</b>	2%
	<b>Property:</b>	
7%	UK	7%
1%	Overseas	1%
	<b>Other Investment Funds:</b>	
22%	Equity	22%
<u>100%</u>	<b>Total</b>	<u>100%</u>

Notes:

- a) All pension fund assets 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	
	31/03/14	31/03/13
	£000	£000
Equity Instruments		
• Quoted in an active market	912	838
• Not quoted in an active market	97	81
Sub total equity instruments	<u>1,009</u>	<u>919</u>

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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 2011.

The significant assumptions used by the actuary have been:

	2013/14	2012/13
Mortality Assumptions:		
Longevity at age 65 for current pensioners (years)		
• Men	21.3	21.3
• Women	23.6	23.6
Longevity at age 65 for future pensioners (years)		
• Men	22.6	22.6
• Women	25.1	25.1
Rate of inflation	2.8%	2.6%
Rate of increase in salaries	5.1%	4.8%
Rate of increase in pensions	2.8%	2.6%
Rate for discounting fund liabilities	4.3%	4.5%
Take up of option to convert annual pension into retirement lump sum	50.0%	50.0%

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

	<b>Impact on the Defined Benefit Obligation in the Fund</b>	
	<b>Approximate % increase to Employer Liability</b>	<b>Approximate monetary amount (£000)</b>
Member life expectancy (increase in 1 year)	<b>3%</b>	<b>37</b>
Rate of increase in salaries (increase by 0.5%)	<b>4%</b>	<b>52</b>
Rate of increase in pensions (increase by 0.5%)	<b>5%</b>	<b>67</b>
Rate for discounting fund liabilities (decrease by 0.5%)	<b>10%</b>	<b>122</b>

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

The aims of the fund are to:

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

The employer's contributions are set by the Fund actuary at each triennial actuarial valuation (the most recent being as at 31 March 2011), or at any time as instructed to do so by the Council. The actuaries have estimated that contributions for the year to 31 March 2015 will be approximately £0.043m.

### **16. Related parties**

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

#### **Highland Council**

The Highland Council provided £0.089m 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, at a cost of £0.018m, to the Partnership. In the year the Partnership contributed £0.089m towards travel related projects undertaken by Highland Council.

#### **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. Moray Council also contributed £0.020m towards the Food Port project. During the year the Partnership contributed £0.010m towards travel projects undertaken by Moray Council.

#### **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 also provided £0.002m towards a Ferry Availability Study. Comhairle Nan Eilean Siar provides administrative, personnel and legal services at a cost of £0.008m, in addition £0.001 was provided to reimburse members expenses and advertising costs. During the year the Partnership contributed £0.026m towards travel projects undertaken by Comhairle Nan Eilean Siar.

#### **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. The partnership provided £0.001m to reimburse Orkney Islands Council for members' expenses and £0.009m towards travel projects undertaken by Orkney Islands Council.

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**Scottish Government**

Scottish Government exerts significant influence through legislation and grant funding. Scottish Government provided grant funding of £0.523m for the Partnership and £0.200m for the East Inverness Bus Improvement Corridor project.

**17. Operating Leases**

The Partnership leases office premises at three locations.

Partnership as Lessee

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

31/03/13 £000		31/03/14 £000
-	- Not later than one year	5
-		5
<u>-</u>		<u>5</u>

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

31/03/13 £000		31/03/14 £000
10	Minimum lease payments	11
<u>10</u>		<u>11</u>

**18. Short Term Debtors**

2012/13 £000		2013/14 £000
-	- Central government bodies	199
-	- Other local authorities	61
82	Other entities and individuals	336
<u>82</u>	Total	<u>596</u>

**19. Short Term Creditors**

2012/13 £000		2013/14 £000
67	Central government bodies	18
9	Other local authorities	23
80	Other entities and individuals	252
<u>156</u>	Total	<u>293</u>

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

The unaudited statement of the accounts was issued by the Treasurer on 3 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

