

FINANCE REPORT - Report by Chief Executive

Summary

This report provides Directors with an update on the financial performance of High Life Highland for the year ended 31 March 2013; invites comment on the draft Directors' Report, and provides information on contracts awarded since the previous meeting of the Board.

It is recommended that Directors:-

- i. note the final out-turn for the year provides a contribution to reserves of £125K;
- ii. note that in addition, restricted reserves of £155K have been created during the year;
- iii. note that the accounting treatment of HLH's pension liability in the annual accounts is under review;
- iv. comment upon the draft Directors' Report; and
- v. note the award of contracts to Porteous Leisure and Mr Sandy Anderson.

1. Business Plan Contribution

- 1.1 This report will contribute to the achievement of the outcome of increased financial sustainability of the High Life Highland (HLH) Business Plan 2012-15.

2. Background

- 2.1 Directors of HLH receive a Finance Report on a quarterly basis. A primary purpose of that report is to summarise the financial performance of the organisation and its subsidiaries.

3. Financial Performance to 31 March 2013

- 3.1 A final out-turn for the year ended 31 March 2013 has been prepared. HLH's consolidated financial performance for the year is summarised by the 9 business areas at **Appendix A**. A verbal update on this was provided at the Finance and Audit Committee on 30 May 2013.
- 3.2 The net result shows services delivered within budget and a contribution to general reserves for the year of £125K, in line with the forecast of £115K prepared in February 2013. As well as the addition to the general reserve, there is also an increase in the level of restricted funds held at 31 March 2013 of £155K. The restricted funds represent monies or incomes which have been received by HLH prior to the year end in respect of specific projects which will be carried out during the current financial year.

3.3 **Appendix B** shows the result for the year split by the nine services and by income and cost category.

3.4 At the time of writing, the position with regard to the accounting treatment of HLH's pension liability in the final accounts is under review. The total liability in respect of HLH's pension obligations has reduced by £1.3M during the period, but there remains uncertainty as to how much of this movement relates to the opening balance retained by The Highland Council. The matter is currently under review between the Council's Head of Accounting, Audit Scotland and HLH's auditors Ernst and Young. A verbal update on progress will be provided to the meeting.

4. Annual Report & Accounts – Directors' Report Content

4.1 Directors are asked to note that the Finance and Audit Committee agreed at their meeting on 30 May 2013 *"that a strong statement be included in the Annual Accounts emphasising the importance of building up reserves of 3% of the total budget, as supported by both the Council and the External Auditors."* It was further agreed at the same meeting that the annual report and accounts should be enhanced by the inclusion of some details on the successes of the company during the year.

4.2 The Finance and Audit Committee further agreed that a special meeting of the committee would be called for early August to allow a review of the content of the Annual Accounts, in particular the Directors' Report to ensure that the appropriate messages are included. The Committee will have a further review of the content at the scheduled meeting on 29 August 2013.

4.3 **Appendix C** provides a first outline draft of the suggested content for the Directors' Report for consideration. Directors are asked to review and comment upon the draft report.

5. Tenders Approved / Contracts Awarded

5.1 A contract for the provision of a review of the sports pitches in Inverness was awarded to Porteous Leisure. The contract has a value of £3,500 with a start date of 27 May 2013 and an end date of 26 July 2013. The contract is being run by HLH on behalf of ECS.

5.2 A contract for the provision of an evaluation of ESOL Tutor Training (English for Speakers of Other Languages) was awarded to Mr Sandy Anderson. The contract has a value of £4,400 with a start date of 1 June 2013 and an end date of 30 September 2013.

6. Implications

6.1 Resource Implications – there are no resource implications arising from the content of this report

- 6.2 Legal Implications – there are no legal implications arising from the content of this report.
- 6.3 Risk Implications – there are no new risks arising from the content of this report.

Recommendation

It is recommended that Directors:-

- i. note the final out-turn for the year provides a contribution to reserves of £125K;
- ii. note that in addition, restricted reserves of £155K have been created during the year;
- iii. note that the accounting treatment of HLH's pension liability in the annual accounts is under review;
- iv. comment upon the draft Directors' Report; and
- v. note the award of contracts to Porteous Leisure and Mr Sandy Anderson.

Signature:

Designation: Chief Executive

Date: 7 June 2013

Appendix A

High Life Highland Out-turn for the year ended 31 March 2013 By Service

Service	Annual Budget	Out-turn for Year	Over/(Under)
Adult Learning	965,868	961,465	(4,403)
Archives	576,245	603,315	27,070
Arts	290,535	290,243	(292)
Leisure	2,477,062	2,599,897	122,835
Libraries	4,016,521	4,021,686	5,165
Museums	564,294	572,095	7,800
Outdoor Education	169,108	177,582	8,473
Sports	530,525	462,517	(68,009)
Support Services	(11,339,623)	(11,367,407)	(27,784)
Youth	1,749,464	1,553,708	(195,756)
Grand Total	0	(124,901)	(124,901)

**High Life Highland
Out-turn for the year ended 31 March 2013
By Cost Category**

Service	Annual Budget	Out-turn for Year	Over/(Under)
Income			
Adult Learning	(223,417)	(222,365)	1,052
Archives	(95,143)	(101,111)	(5,968)
Arts	(61,758)	(51,148)	10,610
Leisure	(3,836,860)	(4,166,472)	(329,612)
Libraries	(147,944)	(133,259)	14,685
Museums	(176,250)	(189,083)	(12,833)
Outdoor Education	(65,709)	(98,572)	(32,864)
Sports	(1,154,361)	(1,263,902)	(109,541)
Support Services	(14,551,255)	(14,793,013)	(241,758)
Youth	(70,411)	(320,406)	(249,995)
Income Total	(20,383,108)	(21,339,332)	(956,224)
Other Costs			
Adult Learning	616,667	603,856	(12,811)
Archives	33,644	64,071	30,427
Arts	165,183	158,272	(6,911)
Leisure	748,862	903,259	154,396
Libraries	1,030,142	1,083,685	53,543
Museums	138,528	183,287	44,759
Outdoor Education	84,299	78,626	(5,673)
Sports	184,503	201,294	16,791
Support Services	2,117,691	2,271,537	153,846
Youth	227,228	313,599	86,372
Other Costs Total	5,346,747	5,861,486	514,739
Staff Costs			
Adult Learning	572,618	579,974	7,356
Archives	637,744	640,355	2,611
Arts	187,110	183,119	(3,991)
Leisure	5,565,060	5,863,110	298,051
Libraries	3,134,323	3,071,259	(63,064)
Museums	602,016	577,891	(24,125)
Outdoor Education	150,518	197,528	47,010
Sports	1,500,383	1,525,126	24,742
Support Services	1,093,941	1,154,069	60,128
Youth	1,592,647	1,560,515	(32,133)
Staff Costs Total	15,036,361	15,352,946	316,585
Grand Total	0	(124,901)	(124,901)

Company number SC407011

High Life Highland

(A company limited by guarantee)

Report and Financial Statements

31 March 2013

High Life Highland

Charity No: SC042593

Company No. SC407011

Directors

C Ewan	(resigned X XXX2013)
D Graham	
L Kirkland	
E McArdle	
D McLachlan	
K Nicol	
J Watt	
L Young	
A Millar	(resigned 3 May 2012, reappointed 31 May 2012)
T Prag	(resigned 3 May 2012)
J Douglas	(resigned 3 May 2012, reappointed 31 May 2012)
P Corbett	(resigned 3 May 2012)
K Gowans	(appointed 31 May 2012)
F Parr	(appointed 31 May 2012)

Company secretary

M Morris

Auditors

Ernst & Young LLP
Barony House
Stoneyfield Business Park
Stoneyfield
Inverness
IV2 2PA

Bankers

Clydesdale Bank
23 Longman Road
Inverness
IV1 1RY

Registered Office

13 Ardross Street
Inverness
IV3 5NS

Directors' report

The directors present their report and the group financial statements for the period from 1 April 2012 to 31 March 2013.

The financial statements have been prepared in accordance with the accounting policies set out in note 2 to the financial statements and comply with the company's Memorandum and Articles of Association, the Companies Act 2006 and the Statement of Recommended Practice, 'Accounting and Reporting by Charities', issued in March 2005.

High Life Highland

High Life Highland is a charitable company limited by guarantee, registered in Scotland and is a subsidiary of The Highland Council, by virtue of it being the sole member of the company and having the power to appoint its directors. The company was formed on 8 September 2011 to deliver a suite of community learning and leisure services on behalf of The Highland Council and was registered as a charity on 15 September 2011.

It has one subsidiary company: High Life Highland (Trading) C.I.C. whose principal aim is to generate funds which will ultimately be utilised by the charity in pursuit of its charitable objectives.

Principal activities and objectives

The principal activities of the company are to develop and promote opportunities in culture, learning, health and well-being. The company's ambition is to be recognised and respected as the leading organisation in these areas.

High Life Highland operates across the Highlands of Scotland, currently within the geographical boundary of The Highland Council's administrative area.

The main business of the company is the delivery of a Service Delivery Contract for The Highland Council across nine areas of work;

- Adult Learning
- Archives
- Arts
- Leisure Facilities
- Libraries
- Museums
- Outdoor Education
- Sport
- Youth Work

Directors' report

Statements by the Chair of the Board and the Chief Executive

Two separate statements which taken together will deliver a powerful message about the ethos of HLH

This section of the report will be drafted in such a way as to highlight the following:

- *How HLH operates across the above 9 services*
- *How we have engaged with stakeholders in the pursuit of both our corporate and charitable objectives*
- *Giving the reader a flavour of some of our successes throughout the year*
- *Commenting on our performance against our non- financial targets for the year*
- *Vision, mission , and core values*
- *Hopes / Targets for the year ahead*
- *Expressions of thanks to staff, customers, key stakeholders (Highland Council)*

Directors' report

Directors

The trustees, who are also the directors for the purposes of company law, who served the charity during the year, are listed on page 1.

There are no directors interests requiring disclosure under the Companies Act 2006.

The overall management and policy decisions of the company are the responsibility of the board of directors who are elected under the terms of the company's Articles of Association.

The board consists of eight independent directors and four Highland Council nominated directors. The retiral and replacement of the directors is also governed by the Articles of Association.

In addition there are a number of board committees responsible for various activities of the company, being the Finance and Audit Committee, Nominations Committee and the Funding and Sponsorship Committee.

Objectives and activities

The company has identified eight business outcomes which form the basis of its work. These business outcomes shape and inform the Operational Plans for each of the nine services. The outcomes are:

- Safety and environmental compliance
- Delivery of the contract with the Highland Council
- Increased awareness of the company's products and services
- Increased staff satisfaction
- A positive company image
- A growing company
- Increased financial sustainability
- Increased internal collaboration

In striving to achieve these outcomes, the company has regard to five core values:

- To act legally
- To be non-discriminatory
- To be a good employer
- To have a safe environment for staff and users
- To take steps to reduce our environmental impact

Directors' report

Achievement and performance

The year to 31 March 2013 was High Life Highland's first full year of operation, having been entrusted with the delivery of culture and leisure services on behalf of the Highland Council from 1 October 2011. The directors consider that this transition phase has been completed successfully and that the company is now in a position to drive forward in pursuit of its charitable objectives.

The company has delivered a large number of successes during the year, each one of which has contributed in some way to enriching the lives of the population of the Highlands.

In..... details to be inserted from Staff Awards successes

In details to be inserted from Staff Awards successes

Results

During the period, the charity has been able to deliver its services within budget and recorded a surplus of £xxx,xxx (£129, 763 - 2012) before the actuarial gain on the pension fund.

The company's revenue stream is largely tied to the terms of its Service Delivery Contract with the Highland Council. Under the terms of that contract, there is a direct linkage between the level of service required by the Council and the amount of funding provided to the company to deliver those services.

The directors consider that, having due regard to the terms of the Service Delivery Contract, the company has sufficient funds to ensure that variations in funding from other sources can be accommodated within the normal operations of the business.

Paragraph required on pension fund deficit, but exact details will be confirmed following discussions with External Auditors, Audit Scotland & THC

At the year-end the company has a deficit on its balance sheet of £x,xxx,xxx (£5,430,237 - 2012). As explained above, there is a linkage between the level of service required and the funding provided. The directors are satisfied that the annual funding received from The Highland Council will be sufficient to enable the company to record surpluses on its general fund, excluding the pension reserve. The future level of contributions to the pension fund has been agreed by the company and The Highland Council in conjunction with the scheme's actuaries with the aim of bringing the pension fund into surplus as soon as practicable.

Future plans

The company has prepared a business plan covering the period to March 2015 which clearly sets out its objectives and plans for the future. The company intends to be recognised and respected as the leading organisation in the highlands for developing and promoting opportunities in culture, learning, sport, leisure, health and wellbeing.

As part of the business plan, the directors have prepared an operational plan in collaboration with the company's highland wide area managers. The operational plan shall be used to guide activity across the company in a co-ordinated, measurable way.

Directors' report

Reserves policy

Whilst it is recognised that the company's principal revenue stream, from The Highland Council, is linked directly to the level of service and resource required, the directors are conscious of the need to build sufficient reserves to be able to cope with fluctuations in the company's revenues and to be able to sustain the impact of one-off cost occurrences.

Accordingly the directors have set a reserve level target of 3% of turnover. The directors appreciate the difficulty of the task of bringing the level of reserves up to target, especially when set against a backdrop of reducing public sector finances.

Nonetheless, the directors consider that the target should be reached within the next 4 years.

Disabled employees

The company and group give full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Investment policy

The directors are governed by the Memorandum and Articles which permit funds to be invested as the directors see fit.

Risk management

The directors actively review the major risks that the company faces on a regular basis and are satisfied that adequate procedures are in place to mitigate exposure to major risks.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the surplus or deficit of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Directors' report

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement as to disclosure of information to auditors

The directors who are members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of the directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Ernst & Young LLP were appointed as auditors during the period following a tender process. A resolution to appoint auditors for the forthcoming year will be discussed at the Annual General Meeting.

This report was approved by the board and signed on its behalf.

Secretary

Date:

Notes to the financial statements

at 31 March 2012