

Annual Accounts

Aithris Chunntasan

2016/17



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Management Commentary

The management commentary is intended to assist users in understanding the objectives and strategy of the Council, and provide a review of its business and financial performance in the year. In addition it provides information on the principal risks and uncertainties which are likely to affect the future development and performance of the Council.

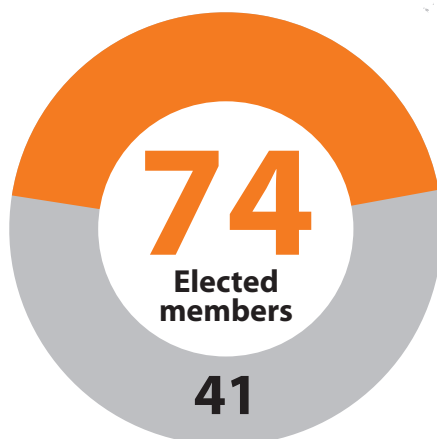
About The Highland Council

Before May 2017 elections



Minority Independent Administration

After May 2017 elections

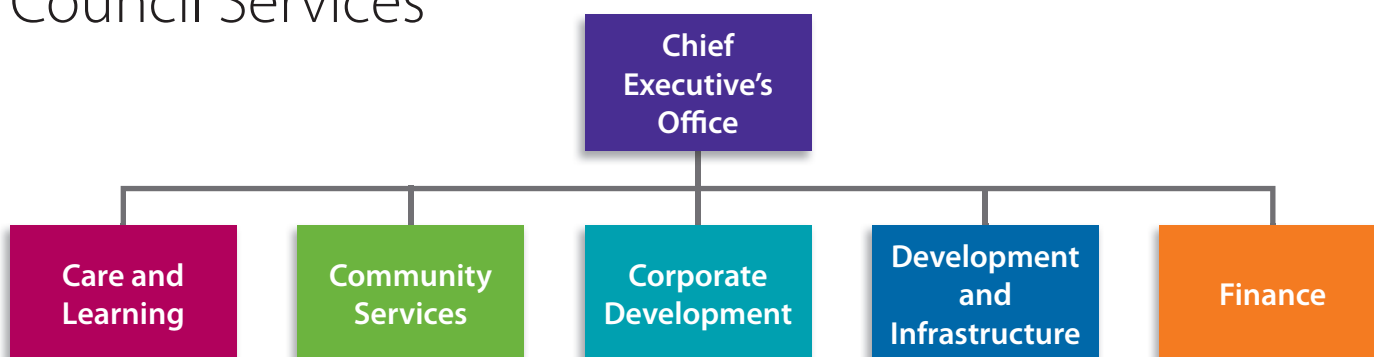


Independent, Liberal Democrat, Labour Coalition Administration



234,110
Population (mid 2015)

Council Services



Council Priorities

The Council's plans and priorities agreed with the Highland Community Planning Partnership and the Scottish Government.



This is what the Council's Administration wishes to achieve, its political commitments and priorities.



How the Council measures its programme's actions.



www.highland.gov.uk/our-priorities

The new administration is expected to publish its programme in the Autumn of 2017.

Council Highlights 2016/17

During the year the Council achieved the following in line with its priorities:

New schools

The new Inverness Royal Academy, Noss Primary school and Caol Joint Campus Primary schools opened to pupils during the year.



Localism

9 Community Partnerships established across Highland. With responsibility shared across the partner agencies, these local groups provide a focus for local discussion, engagement with communities and identifying priorities for the local area.

Digital First

42% of Council service transactions are now delivered on-line. Apply Once, a new online form designed to help customers to work out which council benefits they may be entitled to, has launched.

Local Priorities for Roads

Decision making on the roads maintenance budget transferred to the 8 local area committees from April 2016.

Kingussie Council Offices

The refurbishment, conversion and extension of the grade B listed former courthouse in Kingussie provides new office space for Council staff.

ICT

ICT Service re-procurement completed. New contract awarded which will deliver investment and improvements in our ICT infrastructure including in schools.

Inverness West Link

Ongoing work includes the new bridge over the River Ness, the Canal Parks enhancement and golf course construction. Stage 1 is scheduled to be open to traffic in December 2017.



City-Region Deal

Opening of the Inverness Castle Viewpoint, the first of the £315m City-Region Deal projects to reach completion.



Shared Commercial and Procurement Service

Launch of the shared service with Aberdeen City and Aberdeenshire Councils. This service will play a key role in addressing some of the financial challenges facing all three councils.

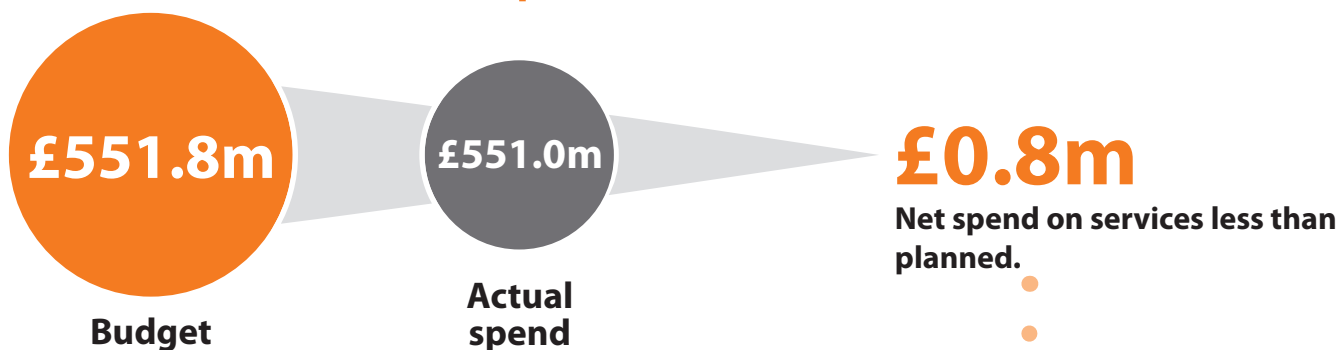
Affordable Housing

Significant projects ongoing at Lochside School, Tweeddale House, Midmills and Stratton. £9m infrastructure loan fund agreed with the Scottish Government to enable further investment to unlock strategic housing sites.

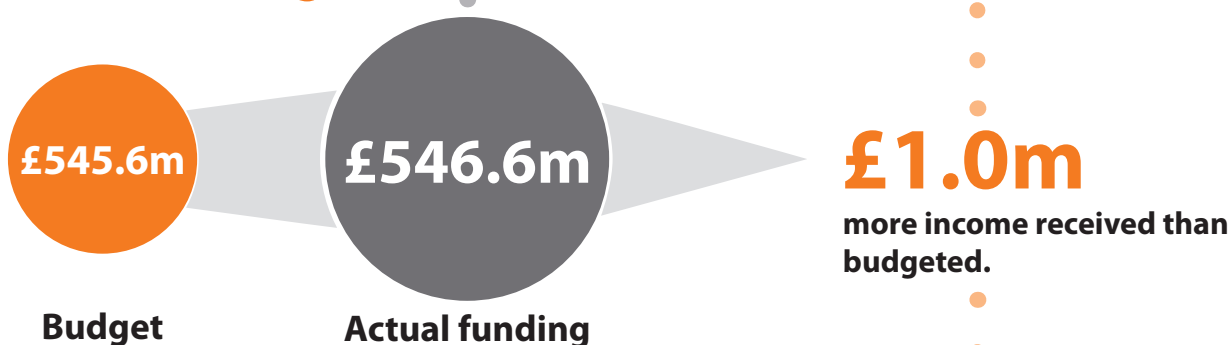
General Fund Revenue Outturn 2016/17

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1st April to 31st March. It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. Note 18 to the accounts provides more detail. The new expenditure and funding analysis statement in the accounts reconciles this position to the comprehensive income and expenditure statement.

General fund service spend



Council funding



Overall surplus

Actual spend and income compared to budget.

£1.8m

Use of reserves

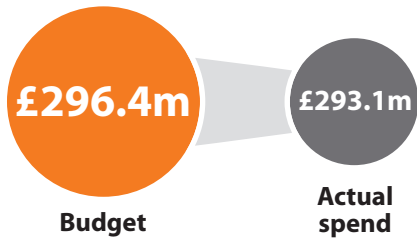
£4.4m

The difference between actual spend and funding in 2016/17 paid for from the Council's General Fund Earmarked and Non-Earmarked Reserves.

Analysis of spend

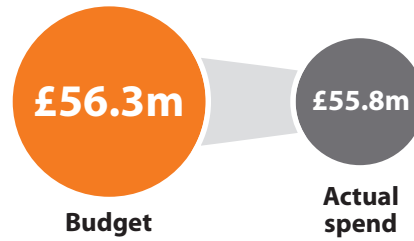
Staff costs

The cost of the Council's employees.



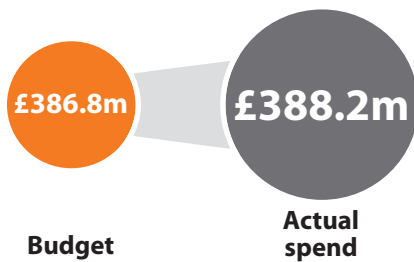
Financing costs

The cost of borrowing to finance capital investment.



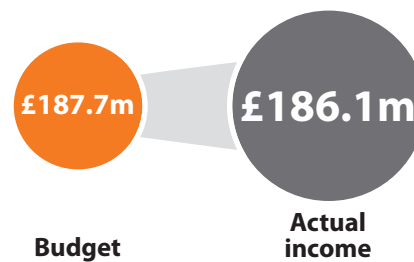
Other costs

The cost of all other types of spend (excluding financing costs).



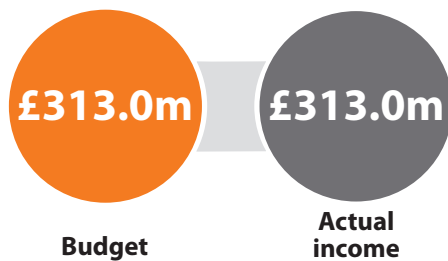
Service income

Funds raised by the Council from selling services, government grants, investment income.



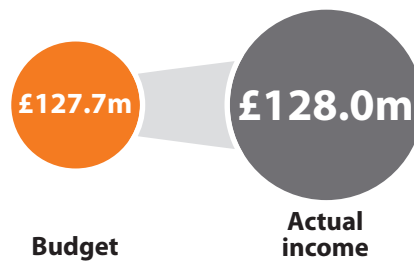
Council funding

Revenue Support Grant

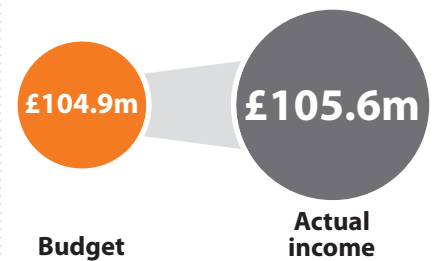


Funding direct from the Scottish Government.

Non-Domestic Rates



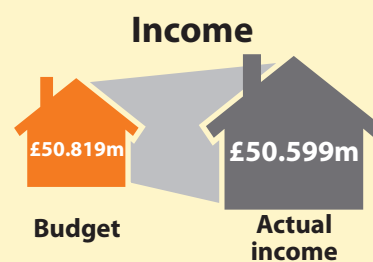
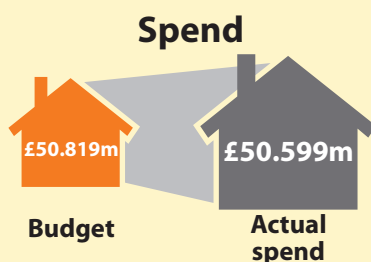
Council Tax



Housing revenue account



The Council owns 13,957 houses for which it charges rent. All expenditure associated with these houses must be funded from the rental income generated. The surplus for the year was used to fund capital expenditure.



Council Reserves

The Council holds funds in a number of usable reserves:

General Fund Non-Earmarked Reserve

£11.4m

(2015/16 £11.7m)

Funds held as a general contingency.

Capital Fund

£27.2m

(2015/16 £30.6m)

To buy land for affordable housing provision.

Insurance Fund

£3.0m

(2015/16 £2.7m)

Insurance for items not covered by external insurance policies.

General Fund Earmarked Reserve

£14.6m

(2015/16 £18.7m)

Funds held for specific purposes such as school DSM balances, developers contributions for future projects, strategic change and development, IT investment.

Renewal and Repair Fund

£1.7m

(2015/16 £1.7m)

For specific types of repair and maintenance work.

HRA Reserve

£7.3m

(2015/16 £7.3m)

For spending on the Council's housing stock.

Capital Receipts Reserve

£1.4m

(2015/16 £2.4m)

Capital receipts available to finance future capital expenditure.

Total Useable Reserves

£66.6m

(2015/16 £75.1m)

See notes 5 and 11 in the accounts for more details on these reserves.

2.0%

The general fund non-earmarked reserve as a percentage of the Council's revenue budget.

Use of useable revenue reserves during the year

-£2.3m

Agreed use of general fund balance to fund one-off costs arising during the year, mostly to facilitate staffing reductions.

+£0.6m

Reduction in equal pay provision moved into general fund balance.

+£2.7m

Increase in earmarked balances from 2016/17 service budgets, mainly school DSM and developer contributions.

-£7.2m

Use of earmarked balances for their specified purposes.

+£1.8m

Service underspends and excess income in 2016/17 added into general fund non-earmarked reserve.

Total use of revenue reserves

-£4.4m

Capital Outturn 2016/17

Capital expenditure represents money spent by the Council for buying, upgrading, or significantly enhancing assets, such as schools, other buildings, roads and IT equipment. The difference between capital and revenue expenditure is that the Council receives the benefits from capital expenditure over a period exceeding one year.

£105.4m Actual capital spend in 2016/17 (excluding HRA).

£28.3m Capital expenditure planned for 2016/17 but delayed until later years.

£7.9m Overspend on capital projects delivered in the year.

Projects with the largest capital spend in 2016/17:

Investment in school buildings

£24.0m



Investment in sport, community and leisure facilities

£9.9m



Investment in roads and bridges

£29.4m



Housing Revenue Account

£32.2m investment in housing stock in 2016/17



Funding of the Capital Programme

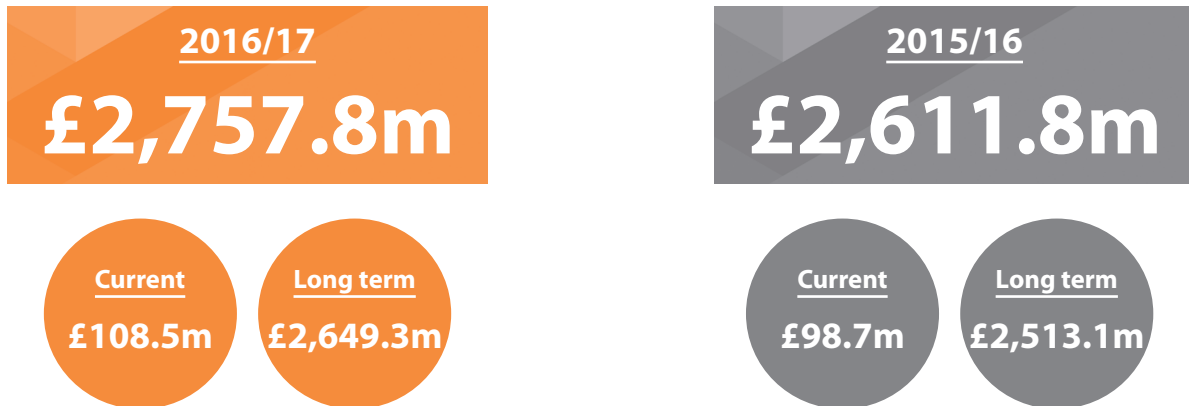
£74.9m of the 2016/17 capital spend was funded by borrowing. More information on borrowing, treasury management and loans fund liabilities can be found in the Council's annual report and strategy statement:

www.highland.gov.uk/treasury

Assets and Liabilities

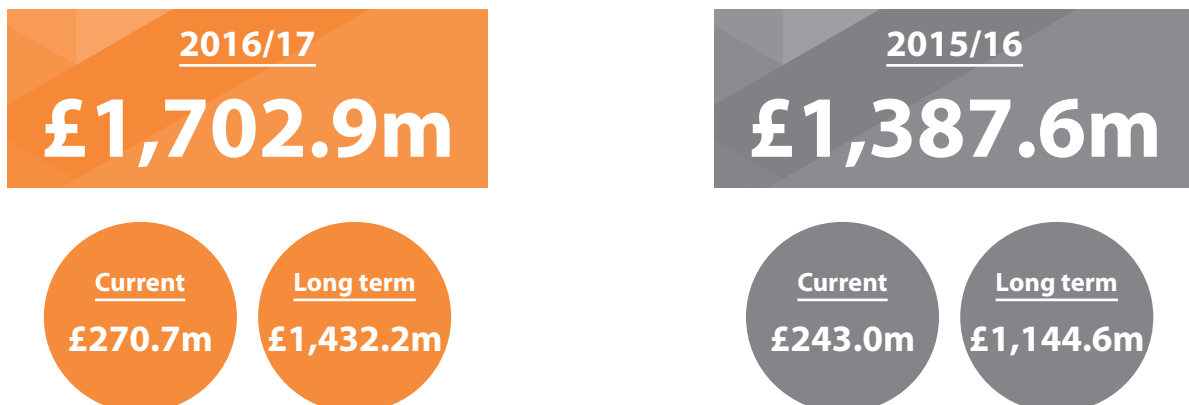
The Council's Balance Sheet shows its assets, liabilities and reserves. More information on its component parts can be seen in the notes to the accounts.

Total Assets



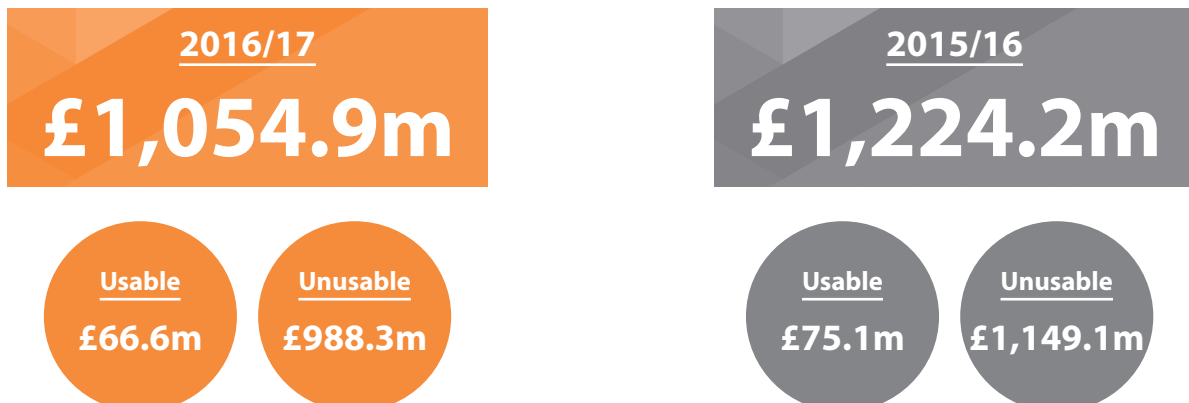
(increase in long term assets due to capital investment and asset revaluations)

Total Liabilities



(increase in long term liabilities due to increase in pension liability and financing the increase in long term assets)

Total Reserves



Unusable reserves relate to revaluation gains or to hold adjustments to reconcile accounting and statutory requirements. These reserves are not available to fund the day to day running expenses of the Council.

Details of Assets and Liabilities

Long term assets

Council houses

£860.9m



Infrastructure assets

£395.5m



Other assets

£197.5m



Other land and buildings

£1,130.6m



Vehicles, plant and equipment

£64.8m



Liabilities

Borrowing

-£893.1m



Pensions liability

-£520.1m



Finance leases

-£165.6m



The outstanding borrowing for PPP and Hub/SFT funded schools.

Short term creditors
(excluding finance leases)

-£101.0m



The estimated cost to the Council if all scheme members' future benefits were payable now.

Other liabilities

-£23.1m



9.93%

Financing costs (annual interest and principal repayment costs associated with the Council's borrowing) as a percentage of our annual net spend (2015/16 9.66%).

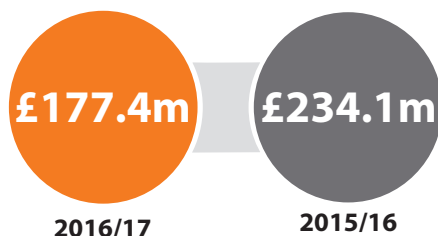
Group Accounts

The Council has interests in other organisations which, under accounting regulations, have to be incorporated into the group accounts. These show the combined figures for all the following entities:



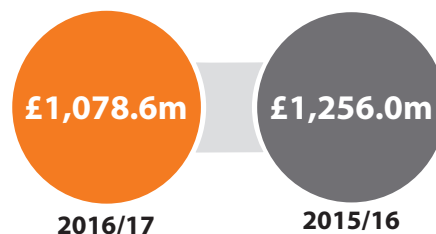
Key Group Financial Information

Total Comprehensive income and expenditure



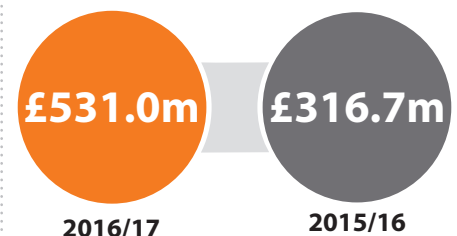
The overall change in total Group reserves calculated on an accounting basis.

Net assets and total reserves



Group assets less group liabilities.

Pension Liability



The estimated cost to the Group if all scheme members' future benefits were payable now.

Performance Management

Reporting on performance is a key part of the Council's governance process and is set out in the Corporate Performance Framework. The Council's Code of Corporate Governance is approved annually by the Resources Committee. The approach to performance management is underpinned by the Council's Values:

Supporting, Listening, Valuing, Delivering, Improving, Partnering and Open

The Council has a range of performance indicators, some of which cover local priorities and others which are national indicators that can be compared with other local authorities.

The key annual performance reports are:

- Corporate Performance Report
- National Statutory Performance Indicators
- Citizen's Panel Performance and Attitudes Survey
- Local Government Benchmarking

Visit: www.highland.gov.uk/performance

Local and National Statutory Performance Indicators 2015/16

The latest year's Statutory Performance Indicators for 2015/16 demonstrate improved performance on the year. This is a positive report of improving performance overall. 75% of our Statutory Performance Indicators have improved by 5% or more in the year 2015/16 which compares to 74% in the previous year's figures. There is improvement across all Council services and High Life Highland.

Indicators that have shown a change of:



Care and Learning

- The average tariff score for S4-S6 pupils in the top quintile increased from **1045** to **1177**.
- The time taken between a Looked After Child being accommodated and permanency decreased from **15 months** to **9.7 months**.

Community Services

- Street Lighting - the cost of maintenance per street lighting unit reduced from **£24.83** to **£15.39**.
- The average time taken to complete emergency repairs improved from **9.1 hours** to **7.9 hours**.
- The average number of hours on site for domestic noise complaints requiring attendance on site reduced from **146** to **53.5**.

Development & Infrastructure

- The cost per Business

Supported has reduced from **£817.77** to **£655.51**.

- The cost per Film Industry Enquiry has reduced from **£244.00** to **£191.00**.

Finance and Corporate

- The cost of Non Domestic Rates collection per chargeable property reduced from **£20.68** to **£17.75**.
- The cost of the Council's democratic core per 1,000 population reduced from **£42,432** to **£35,338**.

Indicators that have shown a change of:



Care and Learning

- The net cost of parks and open spaces per 1,000 population increased from **£12,561.00** to **£17,351.00**.
- The cost per pre-school registration has increased from **£2,864.66** to **£3,679.87**.
- The number of offence based referrals to the

Scottish Children's Reporters Administration (SCRA) increased from **343** to **423**.

Community Services

- The cost of environmental health per 1,000 population increased from **£16,924.00** to **£18,914.00**.
- The cost of maintenance per kilometre of road has increased from **£4,734** to **£6,411**.
- Housing – the average time taken to re-let homes increased from **40.9 days** to **48.2 days**.

Development & Infrastructure

- Planning - the cost per planning application increased from **£3,425.50** to **£4,286.70**.

Finance and Corporate

- The unit cost of creditors invoices increased from **£1.14** to **£1.30**.
- The percentage of sundry debtors collected during the year reduced from **94.21%** to **79.01%** between 2014/15 and 2015/16.

Looking Ahead

Pressures on public sector finances, and the Council in particular, will continue for the foreseeable future. Our five year financial model outlines a range of funding scenarios, but suggests the Council may have to find new savings of £30m each year for the next five years.

National ring fencing of budgets to protect service areas such as Education and Social Care may require budget cuts of a third to a half for “unprotected” service areas. This will place enormous pressures on the Council to maintain services and requires robust financial and workforce strategies to address these challenges.

The cumulative impact of savings over recent years means that the identification of new savings will be even more challenging. The Council needs to move away from single year budgets and restore a three to five year financial plan, linked to the incoming Administration’s policy priorities. Key to this is Service Redesign and Service and Committee restructure.

The Council does however have a strong record of financial management and budgetary control, and this provides reassurance that there are appropriate controls in place to manage budgets.

Risks, Uncertainties and Future Developments

Brexit

Brexit and other macroeconomic and political issues may affect the government funding we receive, cause inflationary cost increases, increase our cost of borrowing or have a direct impact on our workforce.

Scottish Government Grant Settlement

The last few years have seen a one-year grant settlement which is not conducive to longer term planning. Our scenario planning makes assumptions about future grant levels but we would like to have greater certainty.

Service reductions

Reductions in frontline services will be needed to balance budgets in future years as we cannot continue to protect them at the expense of professional, technical and administrative resources. The Council needs to deliver all services as efficiently and effectively as possible and explore new options for service delivery and income generation.

Capital programme

The Council needs to review its capital spending priorities and ensure its capital plan is affordable. This will be extremely challenging given known issues that need to be addressed, particularly in relation to the school estate and roads infrastructure.

Reserves

With the General Fund non-earmarked reserve at 2% of the annual revenue budget the Council is vulnerable to unforeseen events and has limited means to effect transformational change.

2017/18 budget

New savings of £10.7m require to be delivered in addition to previously agreed savings of £6.4m. The Council also agreed to increase Council Tax by 3%.

Steve Barron

Chief Executive
28th September 2017

Margaret Davidson

Leader of the Council
28th September 2017

Derek Yule

Director of Finance
28th September 2017

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The Council's Responsibilities

The Council is required to:

- (i) make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In the Highland Council that officer is the Director of Finance;
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- (iv) Approve the Annual Accounts for signature

I confirm that these Annual Accounts were approved for signature by the Audit and Scrutiny Committee at its meeting on 28 September 2017.

Signed on behalf of Highland Council

Margaret Davidson

Leader of the Council
28 September 2017

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

In preparing this Annual Accounts, the Director of Finance has:-

- (i) selected suitable accounting policies and then applied them consistently,
- (ii) made judgements and estimates that were reasonable and prudent, and
- (iii) complied with legislation
- (iv) complied with the local authority Code (in so far as is compatible with legislation).

The Director of Finance has also:-

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2017.

Derek Yule B.Com, FCPFA, IRRV(Hons)

Director of Finance
28 September 2017

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on our website.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

The Purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

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

The governance framework has been in place for the year ended 31 March 2017 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code is based upon the following six principles:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust public accountability

A number of actions were carried forward from 2015/16 for completion under the new Code of Corporate Governance, these have now been progressed as follows:

1. a new Audit and Performance Team has been created that is now working to more effectively align performance, audit and financial management;
2. workforce plans are in place for all Services however work is also in progress to create a Corporate Workforce Plan, aligned to the outcomes of the Re-design process, which will

- strengthen the Council's ability to manage the required reduction in its workforce over the medium term and in line with its medium term financial plan;
3. the work of the Local Committees has progressed and in line with this arrangements are now in place to meet the requirements placed on the Council by the Community Empowerment Act including the creation of Local Partnerships to lead on the development of locality, adult and children's plans which will address inequalities in our communities and new arrangements for dealing with Asset Transfer Requests and Service Participation Requests;
 4. the Council's Re-design has progressed very well and delivered a set of recommendations which were endorsed by Council in March 2017 and will now be presented to the new Council. The new Council will be asked to make decisions about how to proceed with regards to governance and service structures and proposals for Localism and the creation of a more commercial approach.

The actions set out in the 2016/17 Code of Corporate Governance are delivered or remain on target and no specific actions are required to be carried forward into the new Code. However, the on-going actions required from the Council Re-design, Workforce and Financial Planning, and Community Empowerment Act will continue to be part of the Code to ensure the Council remains focussed on these key issues and continues to manage its financial and resource challenges.

Review of Effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Depute Chief Executive/Director of Corporate Development has been given responsibility for:

- overseeing the implementation of the Local Code of Corporate Governance and monitoring its operation
- reviewing the operation of the Local Code of Corporate Governance in practice
- reporting annually to the Council on compliance with the Local Code and any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Depute Chief Executive/Director of Corporate Development has taken into account the results of reviews of internal control that have been carried out by Internal Audit.

All Service directors have reviewed the arrangements in their services and reported on their assessment of the effectiveness of the control arrangements in place.

The Council's corporate governance arrangements are subject to annual review by Internal Audit and the work undertaken in respect of the 2016/17 Local Code during this year has not identified any control weaknesses in these arrangements.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (the Standards). Section 2450 of the Standards states that "the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition the annual report must incorporate:

- The opinion
- The summary of work that supports that opinion; and
- A statement on conformance with the Standards and the results of the quality assurance and improvement programme"

The Corporate Audit Manager's responsibilities in this regard will be discharged through the presentation of the Internal Audit Annual Report and Annual Governance Statement (AGS) 2016/17 to the Audit and Scrutiny Committee on 26 June 2017.

CIPFA published the Code of Practice on managing the risk of fraud and corruption in 2014. The Code contains five key principles which are aimed at embedding effective standards for countering fraud and corruption in organisations in order to support good governance. These principles are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

A number of these standards are already in place such as the expected Human Resources, and Information and Communication Technology policies, and the Council's Anti-fraud and Anti-corruption policy. A review of compliance with the Code of Practice was planned during 2016/17 but this has been delayed due to a major investigation into the award of works for void properties. This review is now planned for the latter half of 2017/18 and will also take into account the findings from audit investigations where improvements can be made to further strengthen the Council's approach to managing the risk of fraud and corruption.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The action tracking process also allows for revision of the agreed action target dates. All actions were either satisfactorily implemented or revised target dates were agreed. Six-monthly reports providing an update on the results of the action tracking process are provided to the Audit & Scrutiny Committee.

The 2016/17 Internal Annual Report and Annual Governance Statement refers to a total of 90 audit recommendations being made and of these, 21 were classified as high grade. This number is significantly lower than that reported in the previous year which had 40 high grades, 17 of which came from 3 audit reports on project governance which was highlighted as a Significant Governance Issue (see update below)

Despite the above issues, on the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2017.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Scrutiny Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Significant Governance Issues

Update on significant governance issues previously reported:

The 2015/16 AGS highlighted particular issues concerning the governance of projects within the Council with 3 reports (implementation of a new debt recovery system, capital project to build Ben Wyvis School and governance of Inverness Old Town Arts and Inverness City Arts Group) issued, all containing the audit opinion of "Limited Assurance". It has been confirmed that 29, including 14 high grades, have been satisfactorily implemented. The remaining 3 high grade actions are being addressed by management but are taking longer to implement than originally planned. These consist of:

- Ben Wyvis – review of the role of capital Clerk of Works and Building Service Inspectors was to be undertaken. New members of staff have been recruited but work is ongoing to ensure that the site inspection quality process meets the required performance standards. In addition, new tablets and software has been procured and is in the process of being rolled out to the area based Clerk of Works. A revised target date of 31 December 2017 has been agreed for these actions.
- Inverness Old Town Arts and Inverness City Arts Group – the 2 outstanding issues are being addressed with the previous project manager by the Council's External Legal Advisors. It is hoped that resolution will be achieved by 30 June 2017.

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No further significant governance issues were identified from the 2016/17 Internal Audit work undertaken. On a positive note, a review of the Transformation Saving Programme reported that this had a sound system of project governance in place. A review of compliance with the Council's Project Management Governance Policy, which came into place on 1 April 2016, will be subject to audit in 2017/18.

All management agreed actions for previously reported outstanding issues from the 2014/15 audit have been implemented.

The Annual Internal Audit reports identified the following weaknesses for the group along with the agreed remedial action:

Inverness and Nairn Common Good Funds

- a review of governance procedures surrounding rental income in Nairn Common Good fund concluded that there were significant weaknesses in internal control and governance of lease agreements, which resulted in loss of rents to the value of £0.187m. A report provided to Nairn and Badenoch & Strathspey Committee provided assurances that improved governance measures have been provided, but it is critical to ensure that these assurances have been delivered.

Highland and Western Isles Valuation Joint Board

- No significant weaknesses were identified.

Highland and Islands Transport Partnership

- No significant weaknesses were identified.

High Life Highland

- No significant weaknesses were identified.

Margaret Davidson

Leader of the Council
28 September 2017

Steve Barron

Chief Executive
28 September 2017

On behalf of the members and senior officers of the Highland Council.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of The Highland Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of The Highland Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the surplus on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Director of Finance for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting

Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements.

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

Other information in the annual accounts

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

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

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We have nothing to report in respect of these matters.

Joanne Brown, (for and on behalf of Grant Thornton UK LLP)
110 Queen Street
Glasgow
G1 3BX
September 2017

REMUNERATION REPORT

Highland Council Remuneration Report

All information disclosed in paragraphs 1 and 3 below will be audited by Grant Thornton LLP. The other sections of the Remuneration Report will be reviewed by Grant Thornton LLP to ensure that they are consistent with the financial statements.

The Remuneration Report provides information on Senior Councillors of the Highland Council and Senior Employees of the Highland Council and its subsidiary company High Life Highland.

1. Remuneration Arrangements

i) Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of Councillors, for the purposes of remuneration arrangements, as either the Convener of the Council, the Civic Head, Senior Councillors or Councillors. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure and receives a higher salary.

When determining the level of remuneration for Councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration allowance and expenses incurred by local authority Councillors.

The salary that is to be paid to the Leader of the Council is set out in the regulations. For 2016/17 the remuneration for the Leader of Highland Council is £39,418. The regulations permit the Council to remunerate a Civic Head. The Civic Head role in Highland Council is the Convener in 2016/17. Remuneration for both the Civic Head and Convener roles cannot be paid to the same person. The regulations set out the maximum salary that can be paid to a Senior Councillor and to the Civic Head as 75% of the Leader salary i.e. £29,565. The Council has also agreed to remunerate the Deputy Leader of the Council at this level.

The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have, excluding the Leader and the Civic Head. The total amount payable by the Council for remuneration of all of its Senior Councillors cannot exceed £441,337 for 2016/17 and the total number of Senior Councillors permitted is 19. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The total remuneration in 2016/17 for all Councillors was £1,489,547 (2015/16: £1,480,369). The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor members of the pension scheme.

The Scheme of Remuneration which encompasses the salaries of all elected members including the Leader, Deputy Council Leader and Convener, Provost and Senior Councillors was agreed at the Council meeting on 21 January 2016. The report is available at http://www.highland.gov.uk/meetings/meeting/3634/highland_Council

In addition to the Senior Councillors of the Council the regulations also set out the remuneration payable to Councillors with the responsibility of Convener or Vice Convener of a Joint Board. The regulations require the remuneration to be paid by the Council of which the Convener or Vice Convener is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice Convener of a Joint Board.

Remuneration of Senior Councillors and Conveners and Vice-Conveners of Joint Boards for 2016/17

Councillors are listed in alphabetical order.

The salary listed is the whole salary paid to the Councillor in the year and includes basic pay for any period where no Senior Councillor role was held.

Where a Senior Councillor role was not held throughout the year, the full year equivalent (FYE) salary for the role is shown in brackets.

2015/16			Senior Councillor	Responsibility	2016/17		
Salary, Fees & Allowances £	Taxable Expenses £	Total £			Salary, Fees & Allowances £	Taxable Expenses £	Total £
19,672	-	19,672	Isabelle Campbell	Vice Chair of Education, Children and Adult Services Committee from 25/6/15 (2015/16 FYE: £20,568)	20,774	2,637	23,411
22,287	-	22,287	Helen Carmichael	Convener of Highland & Western Isles Valuation Joint Board to 16/9/15 (2015/16 FYE: £20,909) (Note 1) and Provost and Leader of City of Inverness Area Committee from 25/6/15 (2015/16 FYE: £25,222)	25,474	-	25,474
19,821	-	19,821	Ian Cockburn	Chair of Licensing Committee (and Chair of Licensing Board) from 11/6/15 (2015/16 FYE: £20,568)	20,774	-	20,774
35,439	-	35,439	Margaret Davidson	Chair of Audit and Scrutiny Committee to 11/6/15 (2015/16 FYE: £20,568) then Leader of the Council from 11/6/15 (2015/16 FYE: £39,029)	39,418	-	39,418
23,570	2,777	26,347	Bill Fernie	Chair of Resources Committee from 11/6/15 (2015/16 FYE: £25,222)	25,474	1,486	26,960
25,222	1,229	26,451	Hamish Fraser	Leader Skye, Ross and Cromarty (ceased 31/10/15) (2015/16 FYE: £25,222) and Chair of Communities and Partnerships Committee from 21/01/16 (2015/16 FYE: £25,222)	25,474	-	25,474
16,726	-	16,726	Ken Gowans	Convener of Highland & Western Isles Valuation Joint Board from 17/9/15 (2015/16 FYE: £20,909) (Note 2)	21,118	-	21,118

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2015/16			Senior Councillor	Responsibility	2016/17		
Salary, Fees & Allowances £	Taxable Expenses £	Total £			Salary, Fees & Allowances £	Taxable Expenses £	Total £
19,672	-	19,672	Richard Greene	Vice Chair of Community Services Committee from 25/6/15 (2015/16 FYE: £20,568)	20,774	3,796	24,570
23,570	2,660	26,230	Allan Henderson	Chair of Community Services Committee from 11/6/15 (2015/16 FYE: £25,272)	25,474	2,567	28,041
20,734	-	20,734	Richard Laird	Chair of Audit and Scrutiny Committee from 11/6/15 (2015/16 FYE: £25,272)	25,474	-	25,474
26,832	-	26,832	Isobel McCallum	Convener of the Council from 11/6/15 (2015/16 FYE: £29,272)	29,565	-	29,565
19,672	-	19,672	Alistair MacKinnon	Vice Chair of Resources Committee from 25/6/15 (2015/16 FYE: £20,568)	20,774	-	20,774
23,570	-	23,570	Andrew Millar	Chair of Community Safety, Public Engagement and Equalities Committee (ceased 25/6/15) (2015/16 FYE: £20,568) and Chair of Education, Children and Adult Services Committee from 11/6/15 (2015/16 FYE: £25,222)	25,474	-	25,474
17,480	108	17,588	Graham Phillips	Vice Chair of Audit and Scrutiny Committee from 11/6/15 (2015/16 FYE: £20,568)	20,774	135	20,909
19,672	1,530	21,202	Matthew Reiss	Vice Chair of Planning, Development and Infrastructure Committee from 25/06/15 (2015/16 FYE: £20,568)	20,774	2,580	23,354
26,345	-	26,345	Alasdair Rhind	Depute Leader of the Council from 25/6/15 (2015/16 FYE: £29,272)	29,565	-	29,565
19,672	-	19,672	Fiona Robertson	Vice Chair of Education, Children and Adult Services Committee from 25/6/15 (2015/16 FYE: £20,568)	20,774	-	20,774

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2015/16			Senior Councillor	Responsibility	2016/17		
Salary, Fees & Allowances £	Taxable Expenses £	Total £			Salary, Fees & Allowances £	Taxable Expenses £	Total £
16,953	-	16,953	Graham Ross	Vice Chair of Communities and Partnerships Committee from 10/03/16	20,774	274	21,048
23,570	1,831	25,401	Audrey Sinclair	Chair of Planning, Development and Infrastructure Committee from 11/6/15 (2015/16 FYE: £25,222)	25,474	3,063	28,537
25,222	-	25,222	Maxine Smith	Chair of Resources Committee to 11/6/15 (2015/16 FYE: £25,222) and Leader of the Opposition from 11/6/15 (2015/16 FYE: £25,222)	25,474	-	25,474
445,701	10,135	455,836	Total		489,650	16,538	506,188

Note 1 : £1,929 was recharged to Highland and Western Isles Valuation Joint Board in 2015/16

Note 2 : £4,225 was recharged to Highland and Western Isles Valuation Joint Board in 2016/17 (2015/16: £2,254)

Four Highland Councillors also sit on the Board of High Life Highland. These are non-remunerated positions.

Members' Allowances and Expenses

The Council paid the following amounts to members of the Council during the year:

2015/16 £000		2016/17 £000
1,480	Remuneration	1,490
247	Travel and Subsistence	228
37	All Other Expenses	34
<u>1,764</u>	Total	<u>1,752</u>

ii) Senior Employees

The salary of the Chief Executive is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) of Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/148 sets the amount of salary for the Chief Executive of Highland Council for the period 2015 to 2017. The salaries of the Directors are based on a fixed percentage of the Chief Executive's salary. The current arrangement is that Directors receive 75% of the Chief Executive's salary. This arrangement was agreed through approval of the Chief Executive's report on Directors' Salaries at Highland Council on 24 June 2004.

The Director of Corporate Development, as Depute Chief Executive, receives a 10% responsibility payment in addition to the Director's salary.

The salary of the Chief Executive of High Life Highland is based on national terms and conditions and agreed by the Board of High Life Highland following full evaluation of the post and comparison with similar organisations.

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2015/16		Position	2016/17	
Total Remuneration £	Senior Employee		Salary, Fees and Allowances £	Total Remuneration £
155,878	Steve Barron	Chief Executive **	166,033	166,033
120,097	Michelle Morris	Depute Chief Executive & Director of Corporate Development	121,294	121,294
109,179	William Alexander	Director of Care & Learning	110,268	110,268
109,179	William Gilfillan	Director of Community Services	110,268	110,268
109,179	Stuart Black	Director of Development & Infrastructure	110,268	110,268
109,179	Derek Yule	Director of Finance	110,268	110,268
84,220	Ian Murray	Chief Executive, High Life Highland	85,062	85,062
74,838	Carron McDiarmid	Head of Policy & Reform *	75,585	75,585
47,884	Ruth Cleland	Corporate Communications Manager *	49,795	49,795
919,633	Total		938,841	938,841

No taxable expenses were paid in 2016/17.

No Compensation for Loss of Office payments were made in 2016/17.

* Included as Senior Officers as posts are politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government & Housing Act 1989.

** 2015/16 remuneration includes £8,137 paid to the Chief Executive in his role as Returning Officer for the Westminster Parliamentary Election; £468 paid in his role as Returning Officer for local by-elections in May and October 2015; and £2,205 (25%) in his role as Counting Officer for the Referendum on Scottish Independence. 2016/17 remuneration includes £13,418 paid to the Chief Executive in his role as Returning Officer for the Scottish Parliamentary Election in May 2016 and £6,098 in his role as Counting Officer for the European Referendum in June 2016.

General Disclosure by Pay Band

Remuneration Bands £	Number of Employees	
	2016/17	2015/16 (restated)
50,000 - 54,999	191	148
55,000 - 59,999	68	72
60,000 - 64,999	20	18
65,000 - 69,999	13	20
70,000 - 74,999	10	27
75,000 - 79,999	11	4
80,000 - 84,999	3	1
85,000 - 89,999	2	-
90,000 - 94,999	2	-
95,000 - 99,999	2	2
100,000 - 104,999	-	2
105,000 - 109,999	-	4
110,000 - 114,999	4	1
115,000 - 119,999	-	-
120,000 - 124,999	1	1
125,000 - 129,999	1	-
130,000 - 134,999	-	-
135,000 - 139,999	-	-
140,000 - 144,999	-	-
145,000 - 149,999	1	1

The 2015/16 figures have been restated to reflect gross pay before salary sacrifice scheme deductions.

Exit Disclosure

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. The 2016/17 figures include 24 employees who were members of the Highland Council Pension Fund and entitled to immediate pension on leaving the Council (2015/16: 284). The gross actuarial cost of these exit packages is £0.713m (2015/16: £15.007m) and the net savings, on an actuarial basis, are £3.806m (2015/16: £42.514m).

2015/16		Cost Band	2016/17	
Number of Employees	Total Cost £		Number of Employees	Total Cost £
135	1,455,403	£0 - £20,000	42	456,600
96	2,803,132	£20,001 - £40,000	24	621,095
53	2,576,947	£40,001 - £60,000	9	432,848
39	2,661,497	£60,001 - £80,000	3	211,735
14	1,216,049	£80,001 - £100,000	1	99,035
27	3,249,313	£100,001 - £150,000	5	638,263
19	3,181,482	£150,001 - £200,000	1	156,920
4	924,958	£200,001 - £250,000	3	679,342
-	-	£250,001 - £300,000	1	250,857
387	18,068,781	Total	89	3,546,695

The 2016/17 figures include 23 employees leaving under the Employee Early Release Scheme (EERS), the terms of which were agreed by members at the Council Meeting of 15 December 2016. The scheme was open for applications from 5 to 20 January 2017. Applications recommended for

approval by Service Directors were agreed by Members at the Council meeting of 16 February 2017.

The 2015/16 figures include 340 staff members who left under the Voluntary Redundancy Scheme (VRS) which was launched on 21 December 2015 with a closing date of 29 January 2016.

2. Appointments

i) Councillors

The appointment of Councillors to the role of Senior Councillor is agreed by the full Highland Council. On 11 June 2015 the Council appointed the positions of Leader of the Council and Convener. Most other Senior Councillors were appointed at Council on 11 or 26 June 2015.

The Senior Councillor posts held in the Council during 2016/17 were:

Council Leader
Convener – Civic Head
Depute Council Leader
Chair of Audit and Scrutiny Committee
Chair of Communities and Partnerships Committee
Chair of Community Services Committee
Chair of Education, Children and Adult Services Committee
Chair of Planning, Development and Infrastructure Committee
Chair of Resources Committee
Vice Chair of Audit and Scrutiny Committee
Vice Chair of Communities and Partnerships Committee
Vice Chair of Community Services Committee
Vice Chair of Education, Children and Adult Services Committee (2 posts)
Vice Chair of Planning, Development and Infrastructure Committee
Vice Chair of Resources Committee
Chair of Licensing Committee and Board
Leader of the Opposition
Leader of Inverness and Area

ii) Senior Employees

During 2016/17 the Head of Service Appointments Panel comprised the Chair and Vice Chair of Resources Committee, the Chair and Vice-Chair of the relevant Service Committee and 3 other Members (one representative each from the SNP, Lib Dem and Labour Groups within the Council).

3. Pension Benefits – Councillors and Senior Employees

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

The pension scheme is a funded pension scheme consisting of payments from members of the scheme as well as the employer.

From 1 April 2015 pension benefits for both Councillors and local government employees are based on career average pay. The pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living. The total of the revalued pay is then divided by the period of membership to calculate the career average pay, and is the value used to calculate the pension benefits.

The scheme's normal retirement age for Councillors and employees is 65.

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From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership.

The 2016/17 contribution tiers and rates are as follows:

Pensionable pay	Contribution rate 2016/17
On earnings up to and including £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

2015/16 contribution tiers and rates:

Pensionable pay	Contribution rate 2015/16
On earnings up to and including £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

From 1 April 2015, the contribution rate for scheme members who work part-time is based on their actual pay, rather than the equivalent whole-time pay rate.

The 2016/17 employer's contribution rate is 19% of pensionable pay (2015/16: 18.5%).

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of pensionable pay for each year.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age, without exercising any option to commute pension entitlement into a lump sum and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current appointment.

Senior Councillor Pension Benefits

The pension entitlements for Senior Councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year. Councillors are listed in alphabetical order.

Senior Councillor Name	Responsibility	Pension Contributions			Accrued Pension Benefits	
		Year to 31/03/17 £	Year to 31/03/16 £		As at 31/03/17 £000	Difference from 31/03/16 £000
Isabelle Campbell	Vice Chair of Education, Children and Adult Services Committee from 25/6/15	3,944	3,577	Pension : Lump Sum :	3 1	0 0
Helen Carmichael	Convener of Highland & Western Isles Valuation Joint Board to 16/9/15 and Provost and Leader of City of Inverness Area Committee from 25/6/15	4,836	4,410	Pension : Lump Sum :	4 2	0 0
Margaret Davidson	Chair of Audit and Scrutiny Committee to 11/6/15 then Leader of the Council from 11/6/15	7,483	6,268	Pension : Lump Sum :	5 2	1 0
Bill Fernie	Chair of Resources Committee from 11/6/15	4,836	4,227	Pension : Lump Sum :	4 2	0 0
Hamish Fraser	Leader Skye, Ross and Cromarty (ceased 31/10/15) and Chair of Communities and Partnerships Committee (formerly Community Safety, Public Engagement & Equalities Committee) from 11/06/15	4,836	4,662	Pension : Lump Sum :	2 0	1 0
Ken Gowans	Convener of Highland & Western Isles Valuation Joint Board from 17/9/15	4,009	3,444	Pension : Lump Sum :	2 0	0 0
Allan Henderson	Chair of Community Services Committee from 11/6/15	4,836	4,227	Pension : Lump Sum :	3 1	0 0
Richard Laird	Chair of Audit and Scrutiny Committee from 11/6/15	4,836	3,702	Pension : Lump Sum :	2 0	1 0

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Senior Councillor Name	Responsibility	Pension Contributions			Accrued Pension Benefits	
		Year to 31/03/17 £	Year to 31/03/16 £		As at 31/03/17 £000	Difference from 31/03/16 £000
Isobel McCallum	Convener of the Council from 11/6/15	5,613	4,768	Pension : Lump Sum :	4 2	0 0
Alistair MacKinnon	Vice Chair of Resources Committee from 25/6/15	3,944	3,577	Pension : Lump Sum :	2 0	0 0
Andrew Millar	Chair of Community Safety, Public Engagement and Equalities Committee (ceased 25/6/15) and Chair of Education, Children and Adult Services Committee from 11/6/15	4,836	4,227	Pension : Lump Sum :	4 3	0 0
Graham Phillips	Vice Chair of Audit and Scrutiny Committee from 11/6/15	3,944	3,281	Pension : Lump Sum :	2 0	0 0
Matthew Reiss	Vice Chair of Planning, Development and Infrastructure Committee from 25/06/15	3,944	3,577	Pension : Lump Sum :	1 0	1 0
Alasdair Rhind	Depute Leader of the Council from 25/6/15	5,613	4,678	Pension : Lump Sum :	4 1	1 0
Fiona Robertson	Vice Chair of Education, Children and Adult Services Committee from 25/6/15	3,944	3,577	Pension : Lump Sum :	2 0	0 0
Graham Ross	Vice Chair of Communities and Partnerships Committee from 10/03/16	3,926	3,092	Pension : Lump Sum :	2 0	0 0
Audrey Sinclair	Chair of Planning, Development and Infrastructure Committee from 11/6/15	4,836	4,227	Pension : Lump Sum :	2 0	0 0
Maxine Smith	Chair of Resources Committee to 11/6/15 and Leader of the Opposition from 11/6/15	4,836	4,662	Pension : Lump Sum :	2 0	1 0
Total		85,052	74,183	Pension : Lump Sum :	50 14	6 0

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current appointment.

Senior Employee Pension Benefits

The pension entitlements of Senior Employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Senior Employee	Position	Pension Contributions			Accrued Pension Benefits	
		Year to 31/03/16 £	Year to 31/03/17 £		As at 31/03/17 £000	Difference from 31/03/16 £000
Steve Barron	Chief Executive	26,838	27,838	Pension : Lump Sum :	61 122	4 1
Michelle Morris	Depute Chief Executive & Director of Corporate Development	22,218	23,046	Pension : Lump Sum :	42 75	3 1
William Alexander	Director of Care & Learning	20,198	20,951	Pension : Lump Sum :	54 116	3 1
William Gilfillan	Director of Community Services	20,198	20,951	Pension : Lump Sum :	42 81	3 1
Stuart Black	Director of Development & Infrastructure	20,198	20,951	Pension : Lump Sum :	48 97	3 1
Derek Yule	Director of Finance	20,198	20,951	Pension : Lump Sum :	55 118	3 1
Ian Murray	Chief Executive, High Life Highland	15,581	16,162	Pension : Lump Sum :	41 86	2 1
Carron McDiarmid	Head of Policy & Reform	13,845	14,361	Pension : Lump Sum :	31 62	2 1
Ruth Cleland	Corporate Communications Manager	8,859	9,461	Pension : Lump Sum :	3 0	2 0
Total		168,133	174,672	Pension : Lump Sum :	377 757	25 8

Margaret Davidson
Leader of the Council
28 September 2017

Steve Barron
Chief Executive
28 September 2017

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulation; which may differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and in the Movements in Reserves Statement.

2015/16 (restated)				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
37,004	(49,751)	(12,747)		49,429	(50,547)	(1,118)
435,206	(23,699)	411,507	Council Housing – Housing Revenue Account	430,149	(26,288)	403,861
117,932	(35,555)	82,377	Care & Learning	116,705	(37,245)	79,460
10,832	(1,709)	9,123	Community Services	7,503	(1,884)	5,619
26,781	(4,123)	22,658	Chief Executives	26,169	(5,137)	21,032
50,344	(26,126)	24,218	Corporate Development	41,391	(31,053)	10,338
25,878	(6,092)	19,786	Development & Infrastructure	22,252	(6,174)	16,078
54,521	(51,444)	3,077	Finance Service	53,024	(50,315)	2,709
			Welfare Services			
			Joint board requisitions			
2,329	-	2,329	Highland and Western Isles Valuation Joint Board	2,404	-	2,404
91	-	91	Highland and Islands Transport Partnership	91	-	91
760,918	(198,499)	562,419	Cost of services carried forward	749,117	(208,643)	540,474

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (continued)

2015/16 (restated)				2016/17			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
760,918	(198,499)	562,419	Cost of services brought forward		749,117	(208,643)	540,474
		3,951	Losses on the disposal of non-current assets				1,650
		58,856	Financing and investment income and expenditure	7			58,592
		(612,778)	Taxation and non-specific grant Income	8			(592,919)
		12,448	Deficit on provision of services				7,797
		(114,792)	Surplus on revaluation of non-current assets				(25,305)
		(132,869)	Remeasurements of the net defined benefit liability				186,734
		(247,661)	Other comprehensive income and expenditure				161,429
		(235,213)	Total comprehensive income and expenditure				169,226

2015/16 comparatives for Gross Income and Expenditure were restated by £6.939m following the 2016/17 Code changes which no longer require a heading for Corporate and Democratic Core (CDC) costs in the CIES. This reduced recharge income within Finance (£0.852m), Chief Executives (£5.196m) and Corporate Development (£0.891m) and CDC expenditure of £6.939m. A further £14.250m of recharge income and expenditure was eliminated within Community Services following a review of internal recharges in 2016/17. This comprised internal staff costs recharged of £25.934m offset by £11.684m of internal trading income and expenditure which had not been included in cost of services.

MOVEMENT IN RESERVES STATEMENT 2015/16

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council tax and dwelling rents for the year. The Net Increase/Decrease line shows the movement in the year for the various reserves and funds following those adjustments.

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2015	42,240	7,328	2,202	1,711	2,784	30,631	86,896	902,067	988,963
Movement in reserves during 2015/16									
Total comprehensive income and expenditure	(23,497)	11,049	-	-	-	-	(12,448)	247,661	235,213
Adjustments between accounting basis and funding basis under regulations (note 5)	13,920	(10,725)	205	-	-	-	3,400	(3,400)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(9,577)	324	205	-	-	-	(9,048)	244,261	235,213
Transfers to/from other statutory reserves	(2,253)	(324)	-	(41)	(78)	(81)	(2,777)	2,777	-
Increase/(decrease) in 2015/16	(11,830)	-	205	(41)	(78)	(81)	(11,825)	247,038	235,213
Balance at 31 March 2016	30,410	7,328	2,407	1,670	2,706	30,550	75,071	1,149,105	1,224,176

MOVEMENT IN RESERVES STATEMENT 2016/17

	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal and Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2016	30,410	7,328	2,407	1,670	2,706	30,550	75,071	1,149,105	1,224,176
Movement in reserves during 2016/17									
Total comprehensive income and expenditure	(7,269)	(528)	-	-	-	-	(7,797)	(161,429)	(169,226)
Adjustments between accounting basis and funding basis under regulations (note 5)	3,787	528	(1,000)	-	-	-	3,315	(3,315)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(3,482)	-	(1,000)	-	-	-	(4,482)	(164,744)	(169,226)
Transfers to/from other statutory reserves	(899)	-	-	(1)	244	(3,314)	(3,970)	3,970	-
Increase/(decrease) in 2016/17	(4,381)	-	(1,000)	(1)	244	(3,314)	(8,452)	(160,774)	(169,226)
Balance at 31 March 2017	26,029	7,328	1,407	1,669	2,950	27,236	66,619	988,331	1,054,950

EXPENDITURE AND FUNDING ANALYSIS

This statement shows for the Council, how annual expenditure is used and funded from resources (government grants, rents, Council tax and business rates); in comparison with those resources consumed or earned, in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17		
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
(17,961)	5,214	(12,747)	Council Housing – Housing Revenue Account	(18,923)	17,805	(1,118)
395,082	16,425	411,507	Care & Learning	387,824	16,037	403,861
61,505	20,872	82,377	Community Services	58,944	20,516	79,460
5,922	3,201	9,123	Chief Executives	5,088	531	5,619
19,957	2,701	22,658	Corporate Development	17,945	3,087	21,032
14,917	9,301	24,218	Development & Infrastructure	6,745	3,593	10,338
15,200	4,586	19,786	Finance Service	12,981	3,097	16,078
3,077	-	3,077	Welfare Services	2,689	20	2,709
2,420	-	2,420	Joint board requisitions	2,495	-	2,495
500,119	62,300	562,419	Cost of services carried forward	475,788	64,686	540,474

EXPENDITURE AND FUNDING ANALYSIS (continued)

2015/16				2016/17			
Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000		Note	Net Expenditure chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
500,119	62,300	562,419	Cost of services brought forward		475,788	64,686	540,474
(490,866)	(59,105)	(549,971)	Other Income and Expenditure		(472,306)	(60,371)	(532,677)
<hr/>					<hr/>		
9,253	3,195	12,448	Deficit/(surplus)	9	3,482	4,315	7,797
		(49,568)	Opening General Fund and HRA Balance		(37,738)		
		9,253	Less deficit on General Fund or HRA Balance in year		3,482		
		2,577	Transfers from reserves		899		
		<hr/>	Closing General Fund and HRA Balance at 31 March 2017*		<hr/>		
		(37,738)			(33,357)		

*For a split of this balance between the General Fund and the HRA – see 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 Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is unusable reserves i.e. those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services when the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31/03/16 £000		Note	31/03/17 £000
2,454,108	Property, plant and equipment	27	2,590,142
8,536	Heritage assets	32	8,536
624	Long term investments	40	677
<u>49,878</u>	Long term debtors (net of impairment)	33	<u>49,926</u>
2,513,146	Long term assets		2,649,281
731	Short term intangible assets		782
19,298	Short term investments	40	20,019
3,964	Inventories		4,581
43,186	Short term debtors	34	43,130
30,320	Cash and cash equivalents	40	38,797
<u>1,210</u>	Assets held for sale		<u>1,194</u>
98,709	Current assets		108,503
(118,309)	Short term borrowing	40	(144,546)
(107,379)	Short term creditors	35	(105,048)
(4,078)	Provisions	36	(1,962)
<u>(13,276)</u>	Capital Grant Receipts in Advance		<u>(19,039)</u>
(243,042)	Current liabilities		(270,595)
(711,235)	Long term borrowing	40	(748,542)
<u>(433,402)</u>	Other long term liabilities	37	<u>(683,697)</u>
(1,144,637)	Long term liabilities		(1,432,239)
<u><u>1,224,176</u></u>	Net assets		<u><u>1,054,950</u></u>

BALANCE SHEET (CONTINUED)

31/03/16 £000 (restated)		Note	31/03/17 £000
2,407	Capital Receipts Reserve		1,407
1,670	Renewal and Repair Fund		1,669
30,550	Capital Fund	11	27,236
2,706	Insurance Fund		2,950
30,410	General Fund		26,029
7,328	Housing Revenue Account		7,328
<u>75,071</u>	Usable reserves		<u>66,619</u>
545,550	Revaluation Reserve		555,909
(313,027)	Pensions Reserve		(520,090)
952,287	Capital Adjustment Account		989,181
(29,028)	Financial Instruments Adjustment Account		(27,109)
(6,677)	Employee Statutory Adjustment Account		(9,560)
<u>1,149,105</u>	Unusable reserves	12	<u>988,331</u>
<u>1,224,176</u>	Total reserves		<u>1,054,950</u>

The unaudited Annual Accounts were issued on 29 June 2017 and the audited Annual Accounts were authorised for issue on 28 September 2017.

Derek Yule B.Com, FCPFA, IRRV (Hons)
 Director of Finance
 28 September 2017

CASH FLOW STATEMENT

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

2015/16		Note	2016/17
£000			£000
(12,448)	Net surplus/(deficit) on the provision of services		(7,797)
130,378	Adjust net surplus on the provision of services for non-cash movements	13	86,015
(49,520)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	8	(46,257)
<u>68,410</u>	Net cash inflow from operating activities		<u>31,961</u>
(185,425)	Investing activities	15	(129,638)
104,551	Financing activities	16	106,154
<u>(12,464)</u>	Net increase or decrease in cash and cash equivalents		<u>8,477</u>
42,784	Cash and cash equivalents at 1 April 2016		30,320
<u>30,320</u>	Cash and cash equivalents at 31 March 2017	17	<u>38,797</u>

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

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1. Accounting policies

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 details of certain aspects contained within the financial statements.

General principles

The Annual Accounts summarise the transactions of the Council for the financial year 2016/17 and its financial position at 31 March 2017. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. 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 2016/17 (The Code) and the Service reporting code of practice for local authorities 2016/17 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of income and expenditure

The accounts have been prepared on an accruals basis in accordance with the Code of Practice.

- Revenue from the provision of services is recognised when the Council 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 Council.
- Expenses in relation to services received (including those rendered by officers of the Council) 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.
- Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates) income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

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 Council'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.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which are repayable on demand and form an integral part of the Council's cash management.

Accounting for the costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The scheme is currently in the third year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Charges to revenue for non-current assets

Council Services are debited with the following amounts to record the cost of holding non current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Council is not required to raise Council Tax to cover depreciation, revaluation or impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to loans fund principal charges. Depreciation, revaluation and impairment losses are therefore replaced by loans fund principal charges in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Employee benefits

Short term employee benefits such as wages and salaries, bonuses and paid annual leave for current employees, are recognised as an expense in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Employee Statutory Adjustment Account.

Termination benefits are amounts payable either as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or following an employee's decision to accept voluntary redundancy. These benefits are charged to the Comprehensive Income and Expenditure Statement on an accruals basis when the Council is demonstrably committed to terminating the employment of an employee.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner during the year and not the amount calculated according to the relevant accounting

standards. Appropriations are made in the Movements in Reserves Statement to and from the Pension Reserve to remove the notional charges for pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Retirement benefits

Teachers are admitted to the Teachers Superannuation Scheme, which is administered by the Scottish Government. Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The arrangements for both the Teachers' and NHS Schemes mean that assets and liabilities cannot be attributed specifically to the Council.

Both schemes are therefore accounted for as if they were defined contribution schemes – no liability for future payments of benefits is recognised in the Balance Sheet and the Care & Learning Services line in the Comprehensive Income and Expenditure Statement is charged with employer's contributions payable to Teachers and NHS pensions in the year.

Employees of the Council are admitted to The Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit final salary scheme. In addition the Council has liabilities for discretionary pension payments outside the main scheme.

Local Government Pension Scheme

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

- The assets of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value
- The liabilities of The Highland Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method which assesses the present value of the future payments that will be made in relation to retirement benefits earned to date, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees.

The 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 Finance Service expenditure.
- net interest on the defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

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

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

Contributions paid to the Highland Council Pension Fund

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council 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 Council 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 (including teachers and former NHS employees) 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 Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are 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 Annual Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

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

Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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 Council when there is reasonable assurance that:

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached 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 Capital Grants in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Any unused grants are earmarked within the General Fund to finance the expenditure when it arises.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement.

Interests in companies and other entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Operating Leases

The Council as Lessee

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, generally meaning that rentals are charged when they become payable.

The Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

Property, plant and equipment

Assets that have physical substance and are held for use in the supply of services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Classification as a non-current asset is subject to a de minimus level of £0.006m for vehicles, plant and machinery and £0.020m for all other assets.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – historical cost
- Council dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- components – straight line allocation over the useful life of the asset as determined by a suitably qualified officer
- all other assets – fair value, determined the amount that would be paid for the asset in its existing use (existing use value - EUV)
- corporate surplus assets and assets held for sale - fair value as determined by IFRS 13

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, unless the increase is reversing a previous impairment loss or previous revaluation decrease charged to the Surplus or Deficit on the Provision of Services on the same asset.

Where decreases in value are identified, the revaluation loss is accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped together.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £3.0m and over will be considered for componentisation.
- Of those assets, for the purpose of determining a “significant” component of an asset, components with a value of 20% in relation to the overall value of the asset or over £0.5m will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Where assets no longer meet the criteria to be classified as held for sale they will be revalued at existing use value and reclassified to Property, Plant and Equipment. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against Council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction and assets held for sale).

Depreciation is calculated on the following bases:

- Council dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer, ranging from 20 years to 60 years
- vehicles, plant and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, ranging from 3 years to 40 years
- infrastructure – straight-line allocation over 30 years for roads and 60 years for all other assets.

Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal. This is a change in policy from prior years due to the embedded depreciation rules in the newly implemented financial system module to account for Property, Plant and Equipment. Previously depreciation was not charged in the year of acquisition but charged in the year of disposal. Due to the transition between the two different systems it has not been possible to determine the value of the change.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Balances held for impairment losses are also similarly depreciated with the balance being adjusted each year with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost. This is to ensure that the balance is reflecting the maximum permissible reversal allowable to the CIES in future years in the event of a revaluation gain.

Heritage assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include various works of art and museum collections.

The museum collections owned by the Council are curated by museum staff at two principal museum facilities; The Highland Folk Museum, Newtonmore and Inverness Museum and Art Gallery.

Museum collections and works of art and civic regalia are reported on the Balance Sheet at insurance valuation, and are updated annually.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairments.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Intangible assets

Expenditure on identifiable non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as a result of past events (for example computer software) is capitalised when it will bring benefits to the Council for more than one financial year.

The balance is amortised to the Comprehensive Income and Expenditure Statement over its useful life. The amortisation basis is reviewed on an annual basis to ensure any impairment is identified.

Private Finance Initiative (PFI) and Similar Contracts

Highland Council has three PFI and similar contracts which are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current PFI assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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 Note 38 to the accounts.

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to be included in against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then reduced by a transfer into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in Note 12.

Value Added Tax (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 issued but not yet adopted

The following accounting standards will be adopted within the 2017/18 Code effective from 1 April 2017. There is therefore no impact on the 2016/17 financial statements.

- IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: recognition and measurement
- IFRS 15 Revenue from Contracts and Customers which replaces IAS 18 Revenue and IAS 11 Construction Contracts

Amendments to the following accounting standard, not yet endorsed, will have an impact on the accounts, however will be largely presentational.

- IFRS 16 Leases (specifies an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value)

Changes arising from the adoption of these standards are not expected to have any impact on the General Fund balance.

The CIPFA/LASAAC Code Board have decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. This was previously reported to be recognised for the first time in the 2016/17 financial statements.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events (see Note 4). The critical judgements made in the Annual Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision

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

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £5.557m for every year that useful lives had to be reduced.
Arrears	At 31 March 2017 the Council had a balance of sundry debtors of £15.574m. A review of balances suggested that an allowance for impairment of £4.614m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of the amount of doubtful debts would require an additional impairment to be made.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in mortality rates and expected returns on pension fund assets.	The impact of changes in the assumptions used to the pension liability has been assessed by the actuaries as described in Note 23.
Service Concession Arrangement (PPP1)	The Council has a contract with Community Schools (Highlands) Ltd (the "contractor") to provide Operational Facilities which requires the contractor to provide 4 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at January in each year.	The indexation adjustment includes an efficiency factor which for 2016/17 resulted in indexation being applied to approximately 85% of the Unitary Charge. If RPI should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £23,770 in 2016/17.
Service Concession Arrangement (PPP2)	The Council has a contract with Alpha Schools (Highlands) Ltd (the "contractor") to provide Operational Facilities which requires the contractor to provide 10 school buildings including community facilities. The contract regulates price revisions over the period of the service arrangement. The Unitary Charge is adjusted by an annual agreed indexation adjustment which is based on the movement in RPIX as at January in each year.	The indexation adjustment applies to 48% of the Unitary Charge as per the terms of the Project Agreement. If RPIX should have increased by 1% more than it actually did, the annual Unitary Charge would have increased by a further £99,570 in 2016/17.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Service Concession Arrangement (Wick Campus Project)	<p>The Council has a contract with Hub North Scotland (Wick) Ltd (the "contractor") to provide an Operational Facility which is a campus including Primary School, High School and Community Facilities. The contract regulates price revisions over the period of the service arrangements. The Annual Service Payment is adjusted by an annual agreed indexation adjustment which is based on the movement in RPI as at February each year.</p> <p>The Campus Facilities became operational from January 2017 and consequently 2016/17 only reflects a part year's costs.</p>	<p>The indexation adjustment applies to 18% of the Annual Service Payment as per the terms of the Project Agreement.</p> <p>If RPI should have increased by 1% more than it actually did the full year Annual Service Payment would have increased by a further £8,309.37 in 2016/17.</p>
Fair Value Measurements	<p>When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value.</p>	<p>The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.</p>

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 Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2016/17	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	52,345	22,253	-	74,598	(74,598)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(43,057)	(9,942)	-	(52,999)	52,999	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statement	5,302	1,195	-	6,497	(6,497)	-
Revenue expenditure funded by capital	6,738	4	-	6,742	(6,742)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(28,620)	(8,630)	-	(37,250)	37,250	-
Repayment of Finance Lease Creditors	(3,971)	-	-	(3,971)	3,971	-
Capital expenditure charged against the General Fund and HRA balances	(919)	(4,828)	-	(5,747)	5,747	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,848)	-	4,848	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(5,848)	(5,848)	5,848	-

2016/17	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,395)	(524)	-	(1,919)	1,919	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	42,711	2,381	-	45,092	(45,092)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(23,382)	(1,381)	-	(24,763)	24,763	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,883	-	-	2,883	(2,883)	-
Total adjustments 2016/17	3,787	528	(1,000)	3,315	(3,315)	-

2015/16	General Fund	Housing Revenue Account	Capital receipts reserve	Total usable reserves	Movement in unusable reserves	Total reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	61,137	9,052	-	70,189	(70,189)	-
Capital grants and contributions that have been credited to the Comprehensive Income and Expenditure Statement	(45,100)	(9,849)	-	(54,949)	54,949	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal; to the Comprehensive Income and Expenditure Statement	3,686	2,223	-	5,909	(5,909)	-
Revenue expenditure funded by capital	5,429	-	-	5,429	(5,429)	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for repayment of debt	(28,182)	(7,405)	-	(35,587)	35,587	-
Repayment of Finance Lease Creditors	(3,953)	-	-	(3,953)	3,953	-
Capital expenditure charged against the General Fund and HRA balances	(525)	(4,754)	-	(5,279)	5,279	-
Adjustments involving the Capital Receipts Reserve						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(356)	(1,602)	1,958	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	(1,753)	(1,753)	1,753	-

2015/16	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Total usable reserves £000	Movement in unusable reserves £000	Total reserves £000
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,494)	(532)	-	(2,026)	2,026	-
Adjustments involving the Pensions Reserve						
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	49,394	4,675	-	54,069	(54,069)	-
Employers' pension contributions and direct payments to pensioners payable in the year	(23,708)	(2,534)	-	(26,242)	26,242	-
Adjustments involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,408)	1	-	(2,407)	2,407	-
Total adjustments 2015/16	13,920	(10,725)	205	3,400	(3,400)	-

6. Movement in Reserve Statement – transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred back from earmarked reserves to meet General Fund expenditure in 2016/17. The decrease in General Fund of £4.381m (2015/16 - £11.830m decrease) comprises a decrease in earmarked balances of £4.091m (2015/16 - £3.284m) and decrease in non-earmarked balances of £0.290m (2015/16 -£8.546m decrease) .

	Balance at 1/04/15	Transfers out	Transfers in	Interest on balances	Balance at 31/03/16	Transfers out	Transfers in	Interest on balances	Balance at 31/03/17
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Developers' Contributions	2,017	(541)	622	13	2,111	(835)	800	12	2,088
Strategic Change and Development Fund	4,521	(4,456)	2,319	24	2,408	(300)	150	10	2,268
IT Investment Fund	2,600	(1,869)	776	6	1,513	(647)	78	4	948
Devolved School Management	2,593	(500)	1,520	-	3,613	-	1,150	-	4,763
Grants and Match Funding	1,498	(438)	50	5	1,115	(377)	493	3	1,234
Business Rates Incentivisation Scheme	1,311	(940)	-	6	377	(377)	-	-	-
Welfare Issues	1,139	(486)	-	3	656	(31)	-	3	628
Community Challenge Fund	509	(511)	-	2	-	-	-	-	-
Pathfinder	533	(447)	1,751	2	1,839	(729)	-	7	1,117
Central Energy Efficiency Fund	677	(315)	-	3	365	(186)	174	1	354
Police Funding	722	(722)	-	-	-	-	-	-	-
Spend to Save Fund	530	(530)	-	-	-	-	-	-	-
Inverness Royal Academy Extension	153	-	-	-	153	-	-	1	154
Winter Maintenance	1,000	(1,007)	3	4	-	-	-	-	-
Discretionary Housing Payments	172	(162)	-	-	10	(10)	-	-	-
Badaguish Outdoor Centre	454	-	-	2	456	-	-	2	458
Early Years Investment Fund	1,126	(1,131)	-	5	-	-	-	-	-
Walks to Water	124	-	-	1	125	-	-	-	125
Developing the Young Workforce	362	(289)	323	2	398	(144)	-	2	256
Citizens Advice Bureaux Transitional	-	-	102	-	102	(102)	-	-	-
Council Redesign	-	-	150	-	150	(98)	-	-	52
Voluntary Redundancy	-	-	3,366	-	3,366	(3,366)	-	-	-
Business Loans Scotland	-	-	-	-	-	-	221	-	221
Total	22,041	(14,344)	10,982	78	18,757	(7,202)	3,066	45	14,666

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

2015/16 £000		Note	2016/17 £000
(1,113)	Gains on trading operations (note 19)		(652)
46,805	Interest payable and similar charges		48,534
13,613	Pensions net interest expense		11,119
(449)	Interest and investment income		(409)
58,856			58,592

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

2015/16 £000		Note	2016/17 £000
(331,287)	Revenue support grant		(313,049)
(104,358)	Council tax income		(105,560)
(127,613)	Non-Domestic rates		(128,053)
(49,520)	Capital grants and contributions		(46,257)
(612,778)			(592,919)

9. Note to Expenditure and Funding Analysis

Adjustments between Funding & Accounting Basis 2016-17

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Reallocations	Total Adjustments
	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	17,426	379	-	-	17,805
Care & Learning	26,850	3,075	2,969	(16,857)	16,037
Community Services	17,719	1,241	(49)	1,605	20,516
Chief Executives	256	178	97	-	531
Corporate Development	2,830	392	(135)	-	3,087
Development & Infrastructure	2,837	771	(15)	-	3,593
Finance Service	9	3,125	(37)	-	3,097
Welfare Services	-	20	-	-	20
Net Cost of Services	67,927	9,181	2,830	(15,252)	64,686
Other Income from the Expenditure and Funding Analysis	(80,394)	11,148	(5,837)	15,252	(60,371)
Total Adjustments	(13,007)	20,329	(3,007)	-	(4,315)

Adjustments between Funding & Accounting Basis 2015-16

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Reallocations	Total Adjustments
	£000	£000	£000	£000	£000
Council Housing – Housing Revenue Account	4,298	1,047	1	(132)	5,214
Care & Learning	29,623	4,898	(2,624)	(15,472)	16,425
Community Services	16,619	2,148	11	2,094	20,872
Chief Executives	2,932	269	-	-	3,201
Corporate Development	2,069	632	-	-	2,701
Development & Infrastructure	8,167	1,048	86	-	9,301
Finance Service	267	4,124	63	132	4,586
Welfare Services	-	-	-	-	-
Net Cost of Services	63,975	14,166	(2,463)	(13,378)	62,300
Other Income from the Expenditure and Funding Analysis	(44,635)	48	(27,896)	13,378	(59,105)
Total Adjustments	19,340	14,214	(30,359)	-	3,195

Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

10. Segmental Income

Income received on a segmental basis is analysed below:

2015-16 Income from Services £000	Services	2016-17 Income from Services £000
23,586	Care & Learning	25,689
903	Chief Executives Office	1,154
11,693	Corporate Development	11,591
83,317	Community Services	56,246
32,177	Development & Infrastructure	34,502
6,121	Finance Service	6,221
51,444	Welfare Services	50,315
209,241	Total income analysed on a segmental basis	185,718

11. Balance Sheet – usable reserves

(a) The Capital Receipts Reserve represents capital receipts available to finance capital expenditure in future years.

(b) The Council operates a Renewal and Repair fund for the following purposes:

- to fund ground maintenance work undertaken on private land adopted by the Council
- to fund purchases of new museum pieces for Inverness Museum
- to fund repairs to the artificial pitch at Tain Royal Academy Community Complex
- to fund repairs at leisure centres

(c) The Council operates a Capital fund for a Landbanking initiative relating to the provision of affordable social housing throughout the Highlands.

The movements in the Capital Fund are detailed below.

	Total £000
Balance at 31 March 2016	30,550
Transferred from General Fund	656
Transferred to Capital Adjustment account	(3,970)
Balance at 31 March 2017	27,236

(d) Using powers in Schedule 3 of the Local Government Scotland Act 1975 the Council has established an Insurance Fund to meet uninsured losses or surpluses. This fund enables the Council to self insure General Fund properties against a number of risks.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 5 and 6.

12. Balance Sheet – unusable reserves

31/03/16 £000		31/03/17 £000
545,550	Revaluation Reserve (a)	555,909
952,287	Capital Adjustment Account (b)	989,181
(29,028)	Financial Instruments Adjustment Account (c)	(27,109)
(313,027)	Pensions Reserves (d)	(520,090)
(6,677)	Employee Statutory Adjustment Account (e)	(9,560)
1,149,105		998,331

On reviewing historic non current balances to enter onto the new accounting system, the need for an adjustment between the Revaluation Reserve and the Capital Adjustment Account was identified to ensure accurate opening balances were loaded.

(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains revaluation gains which have accumulated since the creation of the reserve on 1 April 2007. Accumulated gains arising up to 31 March 2007 were consolidated into the balance on the Capital Adjustment Account.

2015/16 £000		£000	2016/17 £000
438,165	Balance at 1 April 2016		545,550
142,405	Upward revaluation of assets	28,628	
	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of services	(3,323)	
(27,612)			
114,793	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of services		25,305
(6,739)	Difference between fair value depreciation and historical cost depreciation	(9,646)	
(669)	Accumulated gains on assets sold or scrapped	(2,338)	
-	Historic Balance Adjustment	(2,962)	
(7,408)	Amount written off to the Capital Adjustment Account		(14,946)
545,550	Balance at 31 March 2017		555,909

(b) Capital Adjustment Account

The Capital Adjustment Account absorbs timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Account (with reconciling postings from the Revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on investment properties and also revaluation gains accumulated on property, plant and equipment prior to the creation of the account on 1 April 2007.

Note 5 provides details of the source of all the transactions posted to the account, apart from any involving the Revaluation Reserve.

2015/16 £000		2016/17 £000
922,107	Balance at 1 April 2016	952,287
(5,429)	Revenue Expenditure funded from capital under statute	(6,742)
(54,005)	Charges for depreciation on non-current assets	(63,855)
(16,184)	Revaluation losses on Property, Plant and Equipment	(10,743)
-	Amortisation of Intangible Assets	-
	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the	
(5,909)	Comprehensive Income and Expenditure Statement	(6,497)
(81,527)	Adjusting amounts written out of the Revaluation Reserve	(87,837)
7,408	Net written out amount of the cost of non-current assets consumed in the year	14,946
	Capital Financing applied in the year	
3,953	Repayment of PPP creditors	3,971
1,753	Use of the Capital Receipts Reserve to finance new capital expenditure	5,848
54,949	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	52,999
2,778	Use of the Capital Fund	3,970
35,587	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	37,250
5,279	Capital expenditure charged against the General Fund and HRA balances	5,747
104,299		109,785
952,287	Balance at 31 March 2017	989,181

(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2015/16 £000		2016/17 £000
(31,052)	Balance at 1 April 2016	(29,028)
1,952	Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,904
15	Proportion of equivalent interest rate calculation on lender option/borrower option loans (LOBOs)	15
57	Proportion of equivalent interest rate calculation on soft loans	-
<u>(29,028)</u>	Balance at 31 March 2017	<u>(27,109)</u>

(d) 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 Council 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 Council 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 Authority 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.

2015/16 £000		2016/17 £000	£000
(418,069)	Balance at 1 April 2016		(313,027)
130,047	Actuarial gains/ (losses) arising on changes in financial and demographic assumptions	(343,301)	
(13,684)	Return on plan assets	164,249	
16,506	Other experience adjustments	(7,682)	(186,734)
132,869	Total remeasurements of the net defined liability		
(54,069)	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	(45,092)	
26,242	Employer's pension contributions and direct payments to pensioners payable in the year	24,763	
(27,827)			(20,329)
<u>(313,027)</u>	Balance at 31 March 2017		<u>(520,090)</u>

(e) Employee Statutory Adjustment Account

The Employee Statutory 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.

2015/16 £000		2016/17 £000
(9,084)	Balance at 1 April 2016	(6,677)
9,084	Settlement or cancellation of accrual made at the end of the preceding year	6,677
(6,677)	Amounts accrued at the end of the current year	(9,560)
(6,677)	Balance at 31 March 2017	(9,560)

13. Cash flow statement – Adjustments for non-cash movements

2015/16 £000		2016/17 £000
	Non-cash items	
70,189	Depreciation and impairments	74,598
3,951	Loss on sale of fixed assets	1,650
27,827	IAS 19 transactions	20,329
559	Financial instruments adjustments	(357)
	Items on accruals basis	
(693)	Decrease/(increase) in inventories	(617)
2,480	Decrease/(increase) in debtors	(698)
23,351	(Decrease)/increase in creditors	(6,774)
2,714	(Decrease)/increase In provisions	(2,116)
130,378		86,015

14. Cash flow statement – operating activities

The net cash inflow from operating activities includes the following items:

2015/16 £000 (restated)		2016/17 £000
(255)	Interest received	(386)
46,795	Interest paid	48,091

2015-16 interest received has been restated to reflect the net cash flow rather than interest received on an accruals basis as per the Comprehensive Income & Expenditure Statement ie it has been adjusted for opening and closing interest receivable.

15. Cash flow statement – investing activities

2015/16 £000		2016/17 £000
(188,097)	Purchase of property, plant and equipment	(144,253)
(5,572)	Other payments for investing activities	4,974
(99)	Purchase of short term intangibles	(51)
225	Proceeds from the sale of property, plant and equipment	4,848
2,741	Sale/(purchase) of long and short-term investments	(721)
5,377	Other receipts from investing activities	5,565
(185,425)	Net cash flows from investing activities	(129,638)

16. Cash flow statement – financing activities

2015/16 £000		2016/17 £000
157,028	Cash receipts of short and long term borrowing	295,950
49,520	Other receipts from financing activities	46,257
(3,953)	Cash payments for the reduction of outstanding liabilities relating to PFI contracts	(3,971)
(98,700)	Repayments of short and long term borrowing	(230,750)
656	Other payments for financing activities	(1,332)
104,551	Net cash flows from financing activities	106,154

17. Cash flow statement – cash and cash equivalents

	At 1 April 2016 £000	Cash flow £000	At 31 March 2017 £000
Temporary investments	32,105	11,437	43,542
Cash in hand	64	-	64
Cash at bank	(1,849)	(2,960)	(4,809)
Total cash and cash equivalents	30,320	8,477	38,797

18. Amounts reported for resource allocation decisions

These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the Comprehensive Income and Expenditure Statement)
- 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

The income and expenditure of the Council's services recorded in the monitoring reports for the year is as follows:

Revenue Outturn Position – General Fund

The General Fund sets out the cost of running services (excluding Council housing) over the financial year from 1 April 2016 to 31 March 2017. It shows where the money came from to finance these costs and the surplus or deficit at the end of the period. The table below provides a summary of the year end actual expenditure compared to the annual budget.

General Fund Services 2016/17

	Budget £m	Actual £m	Over/(Under) £m
Care and Learning	388.475	387.824	(0.651)
Chief Executive's Office	5.197	5.088	(0.109)
Corporate Development	17.969	17.944	(0.025)
Community Services	58.301	58.944	0.643
Development and Infrastructure	7.421	7.276	(0.145)
Finance Service	13.035	12.252	(0.783)
Welfare Services	2.691	2.690	(0.001)
Non Domestic Rates reliefs	0.701	0.729	0.028
Joint Board Requisitions			
Highland & Western Isles Valuation Joint Board	2.550	2.404	(0.146)
Highland and Islands Transport Partnership	0.091	0.091	-
Financing			
Loan Charges	56.288	55.785	(0.503)
Interest and Investment Income	(0.180)	(0.353)	(0.173)
Unallocated Savings	(0.956)	-	0.956
Total General Fund Services	551.583	550.674	(0.909)
Appropriations to/from Reserves			
Repairs & Renewals Fund	(0.008)	(0.001)	0.007
Insurance Fund	0.243	0.244	0.001
Affordable Housing	-	0.126	0.126
Amount to be funded from Taxpayers and General Fund Balance	551.818	551.043	(0.775)
Funding			
Revenue Support Grant	(313.049)	(313.049)	-
Non-domestic Rates	(127.682)	(128.053)	(0.371)
Council Tax	(104.927)	(105.560)	(0.633)
Use of General Fund in the year	6.160	4.381	(1.779)

Service Income and Expenditure

Net actual expenditure on delivering General Fund Services is broken down into Council expenditure and income and is analysed by Council Service and account type.

	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
2016/17	£000	£000	£000	£000	£000	£000	£000	£000
Care and Learning	(18,992)	(6,697)	(1)	(25,690)	208,426	205,087	413,513	387,823
Chief Executives Office	(959)	(196)	-	(1,155)	4,167	2,076	6,243	5,088
Corporate Development	(11,591)	-	-	(11,591)	9,117	20,419	29,536	17,945
Community Services	(55,880)	(339)	(26)	(56,245)	35,638	79,552	115,190	58,945
Development & Infrastructure	(29,211)	(5,290)	-	(34,501)	19,380	22,398	41,778	7,277
Finance Service	(6,180)	(41)	-	(6,221)	16,332	2,869	19,201	12,980
Welfare Services	(49,513)	(802)	-	(50,315)	-	53,004	53,004	2,689
Loan Charges	-	-	-	-	-	55,785	55,785	55,785
Interest and investment income	-	-	(353)	(353)	-	-	-	(353)
Joint Board Requisitions								
Valuation Joint Board	-	-	-	-	-	2,404	2,404	2,404
Highland and Islands Transport Partnership	-	-	-	-	-	91	91	91
	(172,326)	(13,365)	(380)	(186,071)	293,060	443,685	736,745	550,674

Service Income and Expenditure (continued)

	Fees, charges and other income	Government grants and other contributions	Interest and investment income	Total income	Staff costs	Other costs	Total expenditure	Net expenditure
2015/16	£000	£000	£000	£000	£000	£000	£000	£000
Care and Learning	(17,574)	(6,011)	(1)	(23,586)	206,872	211,796	418,668	395,082
Chief Executive's Office	(901)	(2)	-	(903)	4,278	2,547	6,825	5,922
Corporate Development	(11,693)	-	-	(11,693)	10,565	21,084	31,649	19,956
Community Services	(82,410)	(880)	(26)	(83,316)	58,928	86,119	145,047	61,731
Development and Infrastructure	(28,316)	(3,861)	-	(32,177)	22,456	24,240	46,696	14,519
Finance Service	(6,122)	-	-	(6,122)	17,886	3,436	21,322	15,200
Welfare Services	(1,692)	(49,752)	-	(51,444)	430	53,939	54,369	2,925
Loan Charges	-	-	-	-	-	55,295	55,295	55,295
Interest and investment income	-	-	-	-	-	(388)	(388)	(388)
Joint Board Requisitions								
Valuation Joint Board	-	-	-	-	-	2,329	2,329	2,329
Highland and Islands Transport Partnership	-	-	-	-	-	91	91	91
	(148,708)	(60,506)	(27)	(209,241)	321,415	460,488	781,903	572,662

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

2015/16 £000		2016/17 £000
572,662	Net expenditure in the service analysis	550,674
(324)	Housing Revenue Account net income not included in the analysis	-
73,267	Amounts not included in the service analysis but included in Comprehensive Income and Expenditure Statement	80,360
(83,186)	Amounts included in service analysis excluded from Comprehensive Income and Expenditure Statement	(90,560)
<u>562,419</u>	Cost of services in Comprehensive Income and Expenditure Statement	<u>540,474</u>

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

2016/17	Service analysis	HRA not in analysis	Amounts not reported to management	Amounts not included in I&E	Allocation of recharges	Cost of services	Corporate amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(172,326)	(50,543)	(1,215)	12,896	22,732	(188,456)	-	(188,456)
Interest and investment income	(380)	(56)	(53)	409	-	(80)	(409)	(489)
Income from Council tax	-	-	-	-	-	-	(105,560)	(105,560)
Government grants and contributions	(13,365)	-	(6,742)	-	-	(20,107)	(487,359)	(507,466)
Total Income	(186,071)	(50,599)	(8,010)	13,305	22,732	(208,643)	(593,328)	(801,971)
Employee expenses	293,059	3,771	12,092	(747)	-	308,175	11,119	319,294
Other service expenses	387,901	23,021	684	(27,429)	(22,732)	361,445	(652)	360,793
Depreciation, amortisation and impairment	-	4,828	75,593	(924)	-	79,497	-	79,497
Interest payments	55,785	18,979	-	(74,764)	-	-	48,534	48,534
(Gain)/loss on disposal of non-current assets	-	-	-	-	-	-	1,650	1,650
Total expenditure	736,745	50,599	88,369	(103,864)	(22,732)	749,117	60,651	809,768
(Surplus)/deficit on the provision of services	550,674	-	80,359	(90,559)	-	540,474	(532,677)	7,797

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2015/16	Service analysis	HRA not in analysis	Amounts not reported to management	Amounts not included in I&E	Allocation of recharges	Cost of services	Corporate amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(148,708)	(49,751)	-	11,684	33,229	(153,546)	-	(153,546)
Interest and investment income	(27)	(62)	(57)	62	-	(84)	(449)	(533)
Income from Council tax	-	-	-	-	-	-	(104,358)	(104,358)
Government grants and contributions	(60,506)	-	(5,553)	1	-	(66,058)	(508,420)	(574,478)
Total Income	(209,241)	(49,813)	(5,610)	11,747	33,229	(219,688)	(613,227)	(832,915)
Employee expenses	321,415	10,107	7,716	-	-	339,238	13,613	352,851
Other service expenses	405,193	17,082	296	(22,092)	(33,229)	367,250	(1,113)	366,137
Depreciation, amortisation and impairment	-	4,754	70,865	-	-	75,619	-	75,619
Interest payments	55,295	17,546	-	(72,841)	-	-	46,805	46,805
(Gain)/loss on disposal of non-current assets	-	-	-	-	-	-	3,951	3,951
Total expenditure	781,903	49,489	78,877	(94,933)	(33,229)	782,107	63,256	845,363
(Surplus)/deficit on the provision of services	572,662	(324)	73,267	(83,186)	-	562,419	(549,971)	12,448

19. Trading operations

The Council has 1 trading operation which operates in a commercial environment. In accordance with the Local Government (Scotland) Act 2003 the significant trading operation is required to break even over a rolling three year period.

Details of significant trading operation**Fishery, Piers and Harbours**

The Harbour organisation trades commercially with vessels from the home and foreign fishing fleet. Transport piers are used by commercial ferry operators who pay dues for the use of the facilities. The target is to break even after depreciation.

Summary of Financial Results

A summary of the financial results of the trading operation for 2016/17 is as follows:

Fishery, Piers and Harbours	£000
Turnover	12,897
Expenditure	<u>(12,231)</u>
Surplus	666
Less internal surplus included in service net expenditure	(9)
Less interest on revenue balances	(5)
Surplus on trading organisation as reported in Comprehensive Income and Expenditure Statement (note 7)	<u><u>652</u></u>
Three year surplus	
Financial Year	£000
2014/15	96
2015/16	1,113
2016/17	<u>652</u>
	<u><u>1,861</u></u>

The Local Government in Scotland Act 2003 requires the Significant Trading Organisation (STO) to break even over a rolling three year period. The table above is presented exclusively to demonstrate that the STO met this target.

20. Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2016/17 the Council collected £126.703m and received £128.053m contribution from the non-domestic rates pool (2015/16 collected £117.394m and received £127.61m).

The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2016/17 the Council paid over £34.040m and received £0.755m for providing this service. During 2015/16 the Council paid over £33.101m and received £0.755m for providing this service.

Payments totalling £0.146m were made to Renfrewshire Council on behalf of Scotland Excel for procurement services (2015/16 - £0.131m).

21. External audit costs

The Council has incurred the following costs in relation to the audit of the Annual Accounts

2015/16 £000		2016/17 £000
438	Fees payable to Audit Scotland with regard to external audit services	403

No fees were payable to Audit Scotland in respect of any other services in either year.

22. Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by The Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Former NHS Highland employees who transferred to the Council as part of the Planning for Integration programme remain members of the NHS Superannuation Scheme (Scotland), administered by The Scottish Government. The Scheme provides eligible employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Teachers' and NHS Schemes are technically defined benefit schemes. However, the Schemes are unfunded and The Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of these Annual Accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17 the Council paid £15.902m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2015/16 were £15.189m and 17.2%. There were no contributions remaining payable at the year-end.

In 2016/17 the Council paid £0.927m to the Scottish Public Pension Agency in respect of NHS retirement benefits, representing 14.9% of pensionable pay. The figures for 2015/16 were £0.915m and 14.9%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' and NHS schemes. These costs are accounted for on a defined benefit basis and are included in the information presented in Note 23.

23. Defined benefit pension schemes

Participation in pension schemes

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

The authority has two post employment arrangements:

- 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 Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- The Highland Council Pension Fund scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Highland Council. Policy is determined in accordance with the Pensions Fund Board Regulations. The investment managers of the fund are appointed by the Investment Committee.
- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to post employment benefits

The Council 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 Council tax 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.

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	37,090	31,564	-	-
Past service cost (including curtailments)	3,366	2,317	-	92
	<u>40,456</u>	<u>33,881</u>	<u>-</u>	<u>92</u>
Financing and investment (income) and expenditure	11,874	9,377	1,739	1,742
	<u>11,874</u>	<u>9,377</u>	<u>1,739</u>	<u>1,742</u>
Total post employment benefits charged to the surplus or deficit on the provision of services	52,330	43,258	1,739	1,834
Other post employment benefits charged to the comprehensive income and expenditure statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets excluding the amount included in the net interest expense	13,684	(164,249)	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	(127,824)	337,500	(2,223)	5,801
Experience adjustments	(15,342)	-	(1,164)	7,682
	<u>(129,482)</u>	<u>173,251</u>	<u>(3,387)</u>	<u>13,483</u>
Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	(129,482)	173,251	(3,387)	13,483

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Movement in reserves statement				
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(52,330)	(43,258)	(1,739)	(1,834)
Actual amount charged against the General Fund balance for pensions in the year				
Employers contributions payable to the scheme	23,342	21,902	2,900	2,861

Pension assets and liabilities recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/16 £000	31/3/17 £000	31/3/16 £000	31/3/17 £000
Present value of the defined benefit obligation	(1,268,611)	(1,654,622)	(51,192)	(63,648)
Fair value of pension fund assets	1,006,776	1,198,180	-	-
Net liability arising from defined benefit obligation	(261,835)	(456,442)	(51,192)	(63,648)

Information about the defined benefit obligation

	Liability split 31/3/17		Duration Years
	£000	(%)	
Active members	1,003,760	60.7%	22.4
Deferred members	223,593	13.5%	21.6
Pensioner members	427,269	25.8%	11.3
Total	1,654,622	100.0%	17.8

The durations are weighted averages as at the last formal valuation date 31 March 2014.

Reconciliation of the movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	31/3/16	31/3/17	31/3/16	31/3/17
	£000	£000	£000	£000
Opening fair value of scheme assets	997,810	1,006,776	-	-
Interest income	31,785	35,075	-	-
Return on plan assets	(13,684)	164,249	-	-
Contributions by employer	23,342	21,902	2,900	2,861
Contributions by Scheme participants	6,816	6,708	-	-
Estimated benefits paid (net of transfers in)	(39,293)	(36,530)	(2,900)	(2,861)
Closing fair value of scheme assets	1,006,776	1,198,180	-	-

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	31/3/16	31/3/17	31/3/16	31/3/17
	£000	£000	£000	£000
Opening defined benefit obligation	(1,360,139)	(1,268,611)	(55,740)	(51,192)
Current service cost	(37,090)	(31,564)	-	-
Past service cost	(3,366)	(2,317)	-	(92)
Interest cost	(43,659)	(44,452)	(1,739)	(1,742)
Contributions by scheme participants	(6,816)	(6,708)	-	-
Actuarial (gains)/losses from changes in financial assumptions	127,824	(337,500)	2,223	(5,801)
Experience adjustments	15,342	-	1,164	(7,682)
Estimated benefits paid (net of transfers in)	39,293	36,530	-	-
Unfunded pension payments	-	-	2,900	2,861
Closing value	(1,268,611)	(1,654,622)	(51,192)	(63,648)

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:

2015/16		2016/17
3%	Cash and cash equivalents	2%
	Equity Securities:	
	By industry type	
14%	Consumer	9%
5%	Manufacturing	12%
4%	Energy and utilities	3%
10%	Financial institutions	11%
2%	Health and care	3%
8%	Information technology	6%
2%	Other	2%
	Debt Securities:	
	By sector	
8%	Corporate	6%
5%	Government	11%
4%	Private Equity	4%
2%	Property Debt	2%
	Property:	
11%	UK	11%
	Other Investment Funds:	
22%	Equity	18%
<u>100%</u>	Total	<u>100%</u>

Note: The risks relating to assets in the scheme are analysed below:

31 March 2016 £000	Fair value of pension fund assets	31 March 2017 £000
966,412	Equity Instruments Quoted in an active market	1,006,712
<u>40,364</u>	Not quoted in an active market	<u>191,468</u>
<u>1,006,776</u>	Total equity instruments	<u>1,198,180</u>

Basis for estimating assets and liabilities

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

The significant assumptions used by the actuary have been:

	2015/16	2016/17
Mortality Assumptions:		
Longevity at 65 for current pensioners (years)		
• Men	22.5	22.5
• Women	24.1	24.1
Longevity at 65 for future pensioners (years)		
• Men	24.7	24.7
• Women	26.8	26.8
Rate of inflation	2.2%	2.4%
Rate of increase in salaries	4.2%	4.4%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting fund liabilities	3.5%	2.6%
Take up option to convert annual pension into retirement lump sum (pre 2009)	50.00%	50.00%
Take up option to convert annual pension into retirement lump sum (post 2009)	75.00%	75.00%

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 the 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.

	Impact on the Defined Benefit Obligation in the Fund	
	Approximate % decrease/increase to Employer Liability	Approximate monetary amount (£000)
Rate of increase in salaries (increase or decrease by 0.5%)	3%	56,216
Rate of increase in pensions (increase or decrease by 0.5%)	7%	125,471
Rate for discounting fund liabilities (increase or decrease by 0.5%)	11%	187,038

Asset and Liability Matching Strategy

The Highland Council Pension fund has an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing.

The overall investment portfolio for the Fund is weighted from the equity market, both UK and Overseas and some Private Equity. However, the portfolio has also invested in Index-Linked Gilts, Property, Property Debt, UK Bonds, Overseas Bonds, Private Equity and Cash. This

diverse range of investments is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

With 78% of the Fund's investments in active management and 22% in index tracking (passive), it is intended that an efficient balance is met between risk and return in light of liability profile and the funding level.

Impact on the Authority's Cash Flow

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2017.

The actuaries have estimated that employer contributions for the year to 31 March 2018 will be approximately £21.904m.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years 2016/17 (17.8 years 2015/16).

24. Local Government Pension Scheme

Highland Council is the administering authority for The Highland Council Pension Fund which provides pensions for those employees of The Highland Council, Comhairle Nan Eilean Siar and of other scheduled and admitted bodies which are eligible to join it.

The following scheduled and admitted bodies are members of The Highland Council Pension Fund:

Scheduled Bodies

- | | |
|---|---------------------------------------|
| 1. The Highland Council | 7. HITRANS |
| 2. Comhairle Nan Eilean Siar | 8. Inverness College |
| 3. Highland and Western Isles Valuation Joint Board | 9. Lews Castle College |
| 4. Scottish Fire & Rescue | 10. Scottish Police Authority |
| 5. Highlands of Scotland Tourist Board | 11. Scottish Police Service Authority |
| 6. Western Isles Tourist Board | 12. The North Highland College |

Admitted Bodies

- | | |
|--|---|
| 1. Bord Na Gaidhlig | 10. Highlife Highland |
| 2. An Comunn Gaidhealach | 11. Inverness Harbour Trust |
| 3. Cromarty Firth Port Authority | 12. Morrison FM |
| 4. Eden Court Theatre | 13. NHS Highland |
| 5. Wipro Holdings (UK) | 14. Skills Development Scotland |
| 6. Forth & Oban Limited | 15. Stornoway Port Authority |
| 7. Hebridean Housing Partnership | 16. University of the Highlands & Islands |
| 8. Highland Blindcraft | 17. Vacman Limited |
| 9. Highland & Islands Enterprise (HIE) | 18. Sight Action |

The following table shows the number of contributors, pensioners and deferred pensioners:

2016/17	Contributors	Pensioners	Deferred Pensioners
Highland Council	7,080	6,599	5,956
Scheduled Bodies	2,886	1,900	2,089
Admitted Bodies	2,402	687	944
Total	12,368	9,186	8,989
2015/16			
Highland Council	7,011	6,105	5,677
Scheduled Bodies	2,931	1,775	1,901
Admitted Bodies	2,376	582	796
Total	12,318	8,462	8,374

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of Governance being the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme Amendment (Scotland) Regulations 2010.

The Fund is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008, the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008. It is contracted out of the State Second Pension. From 1 April 2015 pension benefits for both Councillors and local government employees are based on career average pay.

The actuaries have advised that there are risks and uncertainties associated with the use of assumptions. IAS 19 requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As a result, the figures illustrated above are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Council's obligations to the Fund. Also, the balance sheet position may change significantly due to relative changes in the equity and bond markets at the reporting date.

The main risk to the employer is that it determines assumptions that are more prudent (for example a lower net discount rate, higher longevity) than its peers, leading to a relatively poorer reported financial position. The Council has considered the requirement for a best estimate set of assumptions and a commercial need not to overstate the pension liabilities.

As the administering authority, Highland Council is required to publish a pension fund annual report including a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices. The pension fund annual report is available at www.highland.gov.uk or from Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

25. Related parties

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

Central Government

The Scottish Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits).

An analysis of significant government grants received during the year is set out in Note 39.

Members

Elected Members have influence on the financial and operating policies of the Council through membership of Committees or Sub – Committees, subject to the declaration of interests provisions within the Councillors Code of Conduct.

The total of members' allowances paid in 2016/17 is shown in the remuneration report.

As part of preparation of these accounts members were asked to confirm if they had any related party transactions with the Council. Only 43 out of 80 responses were received, and it has been assumed that a nil response has meant there are no related party transactions. This issue will be raised with members.

One funeral director business, owned by a Councillor, had debts of £0.063m owed to the Council at 31st March 2017.

Valuation Joint Board and Highland and Islands Transport Partnership

Highland Council is a constituent authority of the Highland and Western Isles Valuation Joint Board and the Highlands and Islands Transport Partnership. The net expenditure shown in the Comprehensive Income and Expenditure Statement represents the Council's requisition or proportion of the costs of these organisations.

The Joint Board and Transport Partnership are deemed to be associates of The Highland Council, and are included on this basis in the Group Accounts.

Further information on the Joint Board and the Transport Partnership can be found in each body's Annual Accounts available upon request from the Director of Finance, Highland Council, Glenurquhart Road, Inverness, IV3 5NX and the Highland Council website.

Pension Fund

The Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and other scheduled and admitted bodies which are eligible to join.

The Council charged the Pension Fund £1.180m (2015/16 £1.064m) for expenses incurred in administering the Pension Fund in the year.

NHS Highland

From 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. Under the partnership agreement effective from that date, Highland Council is the lead agency for the delivery of integrated children's services and NHS Highland lead agency for integrated adult services. In 2016/17 Highland Council paid NHS Highland £91.662m (2015/16 - £94.300m) for the provision of integrated adult services and NHS Highland made payment of £9.274m (2015/16 - £8.945m) to Highland Council in respect of integrated children's services.

Entities controlled or significantly influenced by the Council

During the year Highland Council had two subsidiary companies as detailed below. Copies of the Accounts can be obtained from the Company Secretary, c/o Highland Council, Glenurquhart Road, Inverness, IV3 5NX.

High Life Highland

High Life Highland (HLH) is a charitable company limited by guarantee which was incorporated along with its wholly owned subsidiary High Life Highland (Trading) CIC on 1 October 2011 to deliver community learning and leisure services on behalf of The Highland Council. The Highland Council is the sole member of the company.

The results of High Life Highland have been consolidated in the group accounts.

The following related companies have not been consolidated in the Group Accounts as they are considered immaterial

Highland Opportunity Limited (HOL)

HOL provides financial assistance and advice to businesses to protect and expand employment. It is a company limited by guarantee with the liability of the Council limited to £100. During 16/17 the Council took over delivery of some of the services currently provided by HOL.

The last available audited results of the Company are as follows:

Financial Year End	Net Assets £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
31 March 2016	502	(162)	(165)
31 March 2015	261	(279)	(279)

HOL held 100% of the issued ordinary share capital in the following companies.

Company	Nature of business
Highland Opportunity (Communities) Limited	Community projects
Highland Opportunity (EBS) Limited	European Information Centre
Highland Opportunity (Investments) Limited	Investment
Ness Horizons Limited	Provision of office services

Highland Opportunity (Communities) Limited and Highland Opportunity (EBS) Limited ceased to trade on 21st March 2016. Ness Horizons Limited was sold to Polyplus Ltd with effect from 26 July 2016.

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The latest available audited results of these companies are as follows:

	Net assets (Liabilities) £000	Profit/(loss) before taxation £000	Profit/(loss) after taxation £000
Year ended 31 March 2016			
Highland Opportunity (Investments) Limited	2,175	(58)	(59)
Ness Horizons Ltd *	(54)	(35)	(35)
Year ended 31 March 2015			
Highland Opportunity (Communities) Limited	357	2	2
Highland Opportunity (EBS) Limited	67	(38)	(38)
Highland Opportunity (Investments) Limited	2,234	18	15
Ness Horizons Ltd	(19)	6	4

*Closing Accounts

Pathfinder North

The provision of Wide Area Network (WAN) service to the Highland Council has been through partnership arrangements with other Local Authorities. These partnership arrangements cover both the initial Pathfinder North contract and the SWAN contractual arrangements which are replacing the Pathfinder North contract.

During 2016/17 the transition to SWAN was undertaken and, although the transition was largely complete in 2016/17, some sites remained on the Pathfinder North arrangements into 2017/18.

The Highland Council is the lead partner in the Local Authority partnership arrangements acting on behalf of Argyll & Bute Council, Orkney Islands Council, Moray Council, Angus Council and Comhairle nan Eilean Siar.

26. Operating Leases

Highland Council as Lessor

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

31/03/16 £000		31/03/17 £000
2,534	Not later than one year	2,429
8,033	Later than one year and not later than five years	7,256
<u>75,366</u>	Later than five years	<u>73,091</u>
<u><u>85,933</u></u>		<u><u>82,776</u></u>

Highland Council as Lessee

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

31/03/16 £000		31/03/17 £000
3,384	Not later than one year	2,257
3,653	Later than one year and not later than five years	2,690
<u>1,858</u>	Later than five years	<u>1,496</u>
<u><u>8,895</u></u>		<u><u>6,443</u></u>

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

31/03/16 £000		31/03/17 £000
<u>4,280</u>	Minimum lease payments	<u><u>3,583</u></u>

27. Property, plant and equipment

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2016	876,539	1,135,389	113,133	449,823	4,335	2,635	68,273	2,650,127	197,646
Additions	32,707	23,516	19,875	44,498	714	6,532	64,930	192,772	49,116
Revaluation increases recognised in the surplus/deficit of services	-	441	-	-	-	52	-	493	-
Revaluation decreases recognised in the surplus/deficit of services	-	(7,237)	-	-	-	(221)	-	(7,458)	-
Revaluation increases recognised in the Revaluation Reserve	-	24,285	-	-	-	763	-	25,048	-
Revaluation decreases recognised in the Revaluation Reserve	-	(3,423)	-	-	-	(163)	-	(3,586)	-
Derecognition - disposals	(5,444)	(302)	(1,751)	-	-	(12)	-	(7,509)	-
Derecognition – other	(4,554)	(1,099)	-	(14)	-	-	(93)	(5,760)	-
Assets reclassified (to)/from Held for Sale	-	(774)	-	-	-	-	-	(774)	-
Reclassifications	-	9,353	-	29	51	2,561	(11,994)	-	-
At 31 March 2017	899,248	1,180,149	131,257	494,336	5,100	12,147	121,116	2,843,353	246,762

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2016	21,160	35,341	55,038	84,463	-	17	-	196,019	6,214
Depreciation charge	17,349	19,034	13,050	14,402	-	20	-	63,855	3,124
Revaluation increases recognised in the surplus/deficit of services	-	(807)	-	-	-	(22)	-	(829)	-
Revaluation increases recognised in the Revaluation Reserve	-	(3,957)	-	-	-	(15)	-	(3,972)	-
Derecognition - disposals	(90)	(6)	(1,666)	-	-	-	-	(1,762)	-
Derecognition - other	(76)	-	-	-	-	-	-	(76)	-
Reclassifications	-	(28)	-	-	-	20	8	-	-
Assets reclassified to Held for Sale	-	(24)	-	-	-	-	-	(24)	-
At 31 March 2017	38,343	49,553	66,422	98,865	-	20	8	253,211	9,338
Net book value									
At 31 March 2017	860,905	1,130,596	64,835	395,471	5,100	12,127	121,108	2,590,142	237,424
At 31 March 2016	855,379	1,100,048	58,095	365,360	4,335	2,618	68,273	2,454,108	189,076

The difference between the Cost or Valuation at 31/03/2016 in 2015/16 and at 01/04/2016 in 2016/17 for PFI Assets included in Property, Plant and Equipment is due to the inclusion of a PFI asset not recognised in 2015/16.

Comparative Movements in 2015/16

	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Cost or valuation									
As At 1 April 2015	788,199	1,089,425	101,176	415,289	3,266	8,719	38,706	2,444,780	194,662
Additions	55,761	29,346	13,139	34,534	1,069	-	43,404	177,253	628
Revaluation increases recognised in the surplus/deficit of services	6,786	1,194	-	-	-	20	-	8,000	-
Revaluation decreases recognised in the surplus/deficit of services	-	(25,098)	-	-	-	(748)	-	(25,846)	-
Revaluation increases recognised in the Revaluation Reserve	63,500	39,812	-	-	-	266	-	103,578	-
Revaluation decreases recognised in the Revaluation Reserve	(35,484)	(14,709)	-	-	-	(624)	-	(50,817)	-
Derecognition - disposals	(2,223)	-	(1,182)	-	-	-	-	(3,405)	-
Assets reclassified to Held for Sale	-	(2,879)	-	-	-	(537)	-	(3,416)	-
Reclassifications	-	18,298	-	-	-	(4,461)	(13,837)	-	-
At 31 March 2016	876,539	1,135,389	113,133	449,823	4,335	2,635	68,273	2,650,127	195,290

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	Council dwellings £000	Other land and buildings £000	Vehicles, plant and equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total Property, plant and equipment £000	PFI Assets included in Property, plant and equipment £000
Accumulated depreciation and impairment									
As at 1 April 2015	62,172	27,894	46,643	72,461	-	155	-	209,325	3,106
Depreciation charge	15,571	16,966	9,434	12,002	-	28	-	54,001	3,108
Revaluation increases recognised in the surplus/deficit of services	(1,068)	(1,939)	-	-	-	(92)	-	(3,099)	-
Revaluation increases recognised in the Revaluation Reserve	(55,515)	(7,389)	-	-	-	(29)	-	(62,933)	-
Derecognition - disposals	-	-	(1,039)	-	-	-	-	(1,039)	-
Reclassifications	-	26	-	-	-	(26)	-	-	-
Assets reclassified to Held for Sale	-	(217)	-	-	-	(19)	-	(236)	-
At 31 March 2016	21,160	35,341	55,038	84,463	-	17	-	196,019	6,214
Net book value									
At 31 March 2016	855,379	1,100,048	58,095	365,360	4,335	2,618	68,273	2,454,108	189,076
At 31 March 2015	726,027	1,061,531	54,533	342,828	3,266	8,564	38,706	2,235,455	191,556

28. Capital commitments

The total value of legal commitments on capital contracts as at 31 March 2017, for the acquisition of property, plant and equipment, was £122.316m (31 March 2016 £86.463m). Details of the major commitments by contract or project are as follows:

Contract or Project	2016/17 £m
Miscellaneous projects with an individual commitment less than £2m	34.222
HRA Housing - Council House New Builds	10.081
HRA Housing, Heating Replacement to 88 properties- Caithness	7.650
West Link Road (including Canal Pitches)	7.648
HRA Housing, Lochaber Installation of Biomass Heating	7.200
HRA Housing, Window and/or Door replacement to 115 properties Inverness	6.970
Fort William Office Project	5.991
HRA Housing, Roof replacement to 37 properties - Skye	5.860
HRA Housing, Heating Replacement to 58 properties - Inverness, Nairn & B&S	5.460
HRA Housing, Window and/or Door Replacement to 71 properties - Inverness, Nairn & B&S	5.330
New Gaelic Primary School Portree	5.540
HRA Housing, Heating Replacement (Non-gas) - Lochaber	5.170
Inverness High - Phase 1	5.013
Cauldeen Primary	3.537
Torvean Golf Course	3.553
New School, Inverness Royal Academy	3.091
	<u>122.316</u>

29. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

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2015/16 £000 (restated)		2016/17 £000
898,794	Opening capital financing requirement	981,836
	Capital investment	
177,253	Property, Plant and Equipment	192,772
5,429	Revenue Expenditure funded from capital under statute	6,742
99	Current Intangible Assets	51
	Sources of finance	
(1,753)	Capital receipts	(5,848)
(2,778)	Capital Fund	(3,970)
(54,949)	Government grants and other contributions	(52,999)
	Sums set aside from revenue	
(5,279)	- direct revenue contributions	(5,747)
(35,587)	- loans fund principal	(37,250)
5,054	House loans & NHT	1,139
(3,953)	Reduction in Finance Lease Creditors (PPP)	(3,971)
(494)	Movements in Long Term Investments	53
<u>981,836</u>	Closing capital financing requirement	<u>1,072,808</u>
	Explanation of movements in the year	
87,602	Increase in underlying need to borrow (supported by government financial assistance)	44,606
(4,560)	Increase in underlying need to borrow (unsupported by government financial assistance)	(1,192)
-	Assets acquired under PFI contracts	47,558
<u>83,042</u>	Increase/(decrease) in capital financing requirement	<u>90,972</u>

Finance will only be raised in accordance with the Local Government in Scotland Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
Public Works Loans Board	√	√
European Investment Bank	√	√
Market (long-term)	√	√
Market (temporary)	√	√
Market (LOBOs)	√	√
Stock issues	√	√
Local temporary	√	√
Local Bonds	√	x
Overdraft	√	√
Negotiable Bonds	√	√
Internal (capital receipts and revenue balances)	√	√
Commercial Paper	√	x
Medium Term Notes	√	x
Leasing (not operating leases)	√	√
Deferred Purchase	√	√

30. Private finance initiatives and similar contracts

Community Schools (Highlands) Ltd

The Council signed a PFI Project Agreement with Community Schools (Highlands) Ltd on 12 June 2001 to procure four schools for a term of 25 years from August 2002. The annual unitary charge for this project in 2016/17 was £3.711m (2015/16 £3.680m). This charge covers the cost of the use of the school plus an amount relating to the transfer of the asset to the Council at the end of the contract.

The total amount payable under the contract from April 2015 until July 2027 amounts to £35.209m at current prices. The Council receives Level Playing Field Support from the Scottish Government towards these costs. This support is estimated to amount to £14.467m over the remaining term of the contract.

Alpha Schools (Highlands) Ltd

The Council signed a 30 year Project Agreement with Alpha Schools (Highland) Ltd on the 30 March 2006 for the provision of 11 schools. After a phased introduction, all the school buildings are now available to the Council.

The annual unitary charge for this project in 2016/17 was £20.467m (2015/16 £20.328m). This charge covers the cost of the use of the schools plus an amount relating to the transfer of the assets to the Council at the end of the contract.

The total amount of unitary charge payable by the Council over the remaining term of the contract term is estimated to be £414.963m. at current prices. The Council receives Revenue Support of £7.160m per annum from the Scottish Government towards these costs. This support is estimated to amount to £143.200m over the remaining term of the contract.

Hub North Scotland (Wick) Limited

The Council signed a 25 year Design, Build, Finance and Maintain (DBFM) Project Agreement with Hub North Scotland (Wick) Limited on the 19th December 2014 for the provision of a Wick Community Campus comprising Primary School, High School, Public Library and Swimming Pool.

Under the DBFM Project Agreement Hub North Scotland (Wick) Limited construct the facility and carry out certain maintenance obligations during the operational phase using their own funding. Hub North Scotland (Wick) Limited will recover their costs through an indexed Annual Service Charge (ASC) payable by the Council over the 25 years. Payment of the ASC commences from the school availability date contractually scheduled to be 16 September 2016. The actual school availability date occurred in January 2017 and the Council has paid ASC from 13th January 2017.

Following indexation, the full year Annual Service Charge in 2017/18 (the first full year of the project) amounts to £4.599m.

During the 25 year term the Council will receive financial support from the Scottish Government towards the funding of the Annual Service Charge. This Scottish Government funding will commence from the school availability date and in the first full year (2017/18) amounts to £4.069m leaving the Council to fund £0.530m from its own resources.

Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 27.

Liabilities arising from PFI and similar contracts

2015/16 £000		2016/17 £000
(125,923)	As at 1 April 2016	(121,970)
-	Additions in Year	(47,558)
3,953	Repaid in year	3,971
<u>(121,970)</u>	As at 31 March 2017	<u>(165,557)</u>

Payments

Payments remaining to be made under PFI contracts at 31 March 2017 (excluding any estimation of inflation and availability/performance deductions) are as follows

Payments due	Repayment of liability £000	Interest and service charges £000	Total £000
within one year	4,100	28,344	32,444
within 2 to 5 years	20,990	112,273	133,263
within 6 to 10 years	32,756	141,930	174,686
within 11 to 15 years	35,621	128,746	164,367
within 16 to 20 years	51,065	120,541	171,606
within 21 to 25 years	21,025	21,921	42,946
	<u>165,557</u>	<u>553,755</u>	<u>719,312</u>

31. IFRS 13 Fair Value Measurement

Details of the authority's Corporate Surplus Assets and Assets Held for Sale and information about the fair value hierarchy as at 31 March 2017 are as follows:

	Other significant observable inputs (level 2) £000	Fair Value at 31/3/17 £000
Buildings – Corporate Surplus	810	810
Buildings – Held for Sale	409	409
Land – Corporate Surplus	11,317	11,317
Land – Held for Sale	785	785
	<u>13,321</u>	<u>13,321</u>

The fair value for the properties has been based on the comparable method of valuation, which is a market approach using current market conditions and recent transactions and other relevant information for similar assets in the Highland Council area. The inputs are derived through market transactions of other properties actively exchanged through sales and leasing. The level of observable inputs are tangible transactions, leading to the properties being categorised at Level 2 in the fair value hierarchy. Note 4 explains the valuation techniques used in estimating fair value.

In estimating the value of the properties, that stated value does represent their highest and best use in their current use.

The fair value of the authority's Corporate Surplus Assets and Assets Held for Sale is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. The authority's valuation experts work closely with finance officers reporting directly to the Chief Financial Officer on a regular basis regarding all valuation matters.

Details of the Common Good Funds' Investment properties held at fair value are shown in the Common Good accounts (Note 6).

32. Heritage assets

	Museum Collections £000	Works of Art & Civic Regalia £000	Total £000
Balance at 1 April 2015	6,290	2,247	8,537
Revaluations	-	(1)	(1)
Balance at 31 March 2016	<u>6,290</u>	<u>2,246</u>	<u>8,536</u>
Revaluations	-	-	-
Balance at 31 March 2017	<u><u>6,290</u></u>	<u><u>2,246</u></u>	<u><u>8,536</u></u>

33. Long term debtors

31/03/16 £000		31/03/17 £000
14,861	Police Scotland	14,290
7,351	Scottish Fire and Rescue Service	6,849
11,307	Landbanking fund advances	10,324
16,169	National Housing Trust	17,336
190	Other loans	1,127
<u>49,878</u>	Long term debtors (net of impairment)	<u>49,926</u>

34. Short term debtors

31/03/16 £000		31/03/17 £000
23,172	Central government bodies	17,745
279	Other local authorities	416
629	NHS bodies	7
29	Public corporations	13
<u>55,522</u>	Other entities and individuals	<u>62,632</u>
79,631		80,813
(36,445)	Provision for impairment	(37,683)
<u>43,186</u>	Total (net of impairment)	<u>43,130</u>

35. Short term creditors

31/03/16 £000		31/03/17 £000
7,418	Central government bodies	7,980
409	Other local authorities	168
22,868	NHS bodies	22,852
1,329	Public corporations	1,052
3,745	Finance lease creditors	4,101
71,609	Other entities and individuals	68,895
<u>107,379</u>	Total	<u>105,048</u>

36. Provisions

	Note	At 1/04/16 £000	Increase in provision £000	Use of provision £000	Unused amounts reversed during the year £000	At 31/03/17 £000
Short term						
Equal Pay	1	1,608	-	(15)	(616)	977
Insurance	2	740	-	(351)	-	389
Building Dilapidations	3	506	90	-	-	596
Voluntary Redundancy	4	1,224	-	(1,224)	-	-
		<u>4,078</u>	<u>90</u>	<u>(1,590)</u>	<u>(616)</u>	<u>1,962</u>

- (1) Provision made to meet anticipated costs of outstanding equal pay and single status claims, appeals against job evaluation outcomes and other related liabilities. The decrease in the provision is the estimated settlement value of the claims recognised as a contingent liability in the previous year's accounts.
- (2) Provision made for outstanding insurance claims
- (3) Provision made for repairs on dilapidated buildings
- (4) Provision for redundancy and pension fund strain costs from Voluntary Redundancy for employees leaving under the scheme from 1 June 2016 onwards.

37. Long Term Liabilities

31/03/16 £000		31/03/17 £000
313,027	Pension Liability	520,090
118,225	Finance lease creditors	161,457
2,150	Other long term creditors	2,150
<u>433,402</u>		<u>683,697</u>

38. Contingent liabilities

Mallaig Harbour Authority

The Council has guaranteed a 25 year loan from the Public Works Loan Board to Mallaig Harbour Authority. The Harbour Authority's current loan obligations to the PWLB comprise half yearly repayments of principal and interest totalling £0.034m. The balance of that loan as at 31 March 2017 is £0.201m (31 March 2016 £0.225m).

In the event of default by the Harbour Authority in making any repayment, the PWLB would be entitled to demand payment of those instalments by the Council.

The Council in acting as loans guarantor is doing so under the powers, inter alia, of Section 171A of the Local Government (Scotland) Act 1973. The Council holds security over the Harbour Authority's land and buildings.

Aonach Mor Development

The ground used for the ski development is leased by The Highland Council from the owners, and sub-let to the Nevis Range Development Company. The Council is obliged to remove all buildings, machinery and other items at the expiry or earlier termination of the leases, and to restore the let subjects to their original condition. Restoration may not be required if operation of the resort can be continued. The cost of restoration cannot be readily quantified, but would be considerable. The leases expire in 2048.

Lochinver Harbour Bonded Warehouse

The Council operates a bonded warehouse at Lochinver Harbour. HM Revenue & Customs now require an independent guarantee from a financial institution so that any loss of monies from unpaid duty can be collected. The Clydesdale Bank, as bankers for the Council, have provided a guarantee, but require the Council to indemnify them against any claims and costs incurred. The guarantee is for the sum of £0.020m.

Holiday pay

As a result of Case Law relating to a European Directive, Local Authorities expect to have to amend their traditional calculation of holiday pay. The Council is currently discussing the position with the trade unions and may have a potential liability dependent on the introduction and time frame of any new guidance.

Building dilapidations

The Council leases a number of buildings which will require to be returned to their original leased condition at the end of the lease. The Council has a potential liability to incur re-instatement costs where the condition has deteriorated below that of the original state. A provision of £0.596m has been made for these costs, but other buildings exist for which the cost of repairs could not be reliably estimated.

Contractual challenges

A contractor has raised legal proceedings against the Council for payment of £0.796m relating to termination of a biomass heat supply contract.

A second contractor has also initiated proceedings for more than £9.000m against the Council in relation to the Inverness flood defences work impacting on their business.

The same contractor has initiated formal contractual dispute proceedings against the Council in respect of a contested claim of approximately £1.400m in respect of the dry recycle contract.

Financial provision has not been made for any of these claims as the Council is defending the challenges and currently does not believe that a liability will arise.

Nevis Partnership

The Council has provided a Council guarantee to the Clydesdale Bank in order that an overdraft facility can be provided to Nevis Partnership. Nevis Partnership has obtained funding to meet the costs of environmental project works. Occasionally contractors will be paid in advance of receiving the long term funding from the funding bodies supporting the project. The overdraft facility is to provide Nevis Partnership with liquidity during these periods of time.

In the event of default by Nevis Partnership the Council would be liable to repay up to a maximum of £0.150m. To minimise the risks to the Council, a Minute of Agreement between the Council and Nevis Partnership has also been signed which places legal obligations on Nevis Partnership which should minimise the risk of the Council's Guarantee to the Clydesdale Bank being invoked.

Highland Council Pension Fund

The Council acts as Guarantor for the following Admitted Bodies in the Highland Council Pension Fund:

Highland Opportunity Limited
Highlands and Western Isles Joint Valuation Board
HITRANS
Sight Action
Eden Court
UHI

Any liability would only materialise should the organisations cease to become members of the Fund and be unable to meet any termination value calculated by the Fund Actuaries.

39. Grant income

The Comprehensive Income and Expenditure Statement in 2016/17 includes the following grants, contributions and donations:

2015/16 £000		2016/17 £000
	Credited to Taxation and non-specific grant income	
331,287	Revenue support grant	313,049
127,613	Non-Domestic rates	128,053
<u>49,520</u>	Capital grants and contributions	<u>46,257</u>
508,420		487,359
	Credited to services	
5,429	Capital grants and contributions	6,742
49,752	Housing benefits	50,399
875	EMA	843
	Home Energy Efficiency Programmes for Scotland: Area Based	
3,491	Schemes	4,806
125	Smarter Choices	252
434	Developers Contributions	817
712	European Grants and Contributions	1,048
	- Syrian Refugees	287
	- Attainment Challenge	424
	- Scottish Futures Trust - Wick Schools	676
940	Gaelic	940
157	Activity agreement pilots	242
543	Youth Music Initiative	543
3,101	Criminal Justice Grant	3,121
	- Community Sentences	207
<u>180</u>	Family Nurse Partnership	<u>188</u>
<u>574,159</u>	Total	<u>558,894</u>

40. Financial instrument balances

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet

31/03/16 (restated)			31/03/17	
Long term £000	Current £000		Long term £000	Current £000
Investments				
624	-	Loans and receivables	677	-
<u>624</u>	-	Total investments	<u>677</u>	-
Debtors				
49,878	40,541	Loans and receivables	50,886	41,712
-	19,298	Financial assets carried at contract amounts	-	20,019
<u>49,878</u>	<u>59,838</u>	Total included in Debtors	<u>50,886</u>	<u>61,731</u>
-	30,320	Cash and Cash equivalents	-	<u>38,797</u>
Borrowing				
<u>711,235</u>	<u>118,309</u>	Financial liabilities at amortised cost	<u>748,542</u>	<u>144,546</u>
711,235	118,309	Total Borrowing	748,542	144,546
Other long term liabilities				
118,225	-	PFI and finance lease liabilities	161,457	-
<u>2,150</u>	-	Other long term liabilities	<u>2,150</u>	-
120,375	-	Total other long term liabilities	163,607	-
Creditors				
-	102,885	Financial liabilities at contract amount	-	<u>96,953</u>
-	102,885	Total creditors	-	96,953

Material soft loans made by the Council**Landbank fund loans**

The Council operates a fund to account for transactions relating to the Affordable Social Housing (Landbanking) initiative. Interest free loans are made from the fund to various housing associations and bodies and these are deemed to be material soft loans.

2015/16 £000			2016/17 £000
10,883	Balance at 1 April 2016		11,307
1,222	Nominal value of new loans made in the year		69
(719)	Loans repaid in the year		(1,338)
(100)	Loans written off in the year		-
21	Fair value adjustment re interest uncharged in year		286
<u>11,307</u>	Balance at 31 March 2017		<u>10,324</u>

Loans to Inverness Airport Business Park

The loan to Inverness Airport Business Park Ltd to develop a mixed use business park

2015/16 £000		2016/17 £000
1,118	Balance at 1 April 2016	624
57	Fair value adjustment re interest uncharged in year	53
(551)	Future interest foregone	-
<u>624</u>	Balance at 31 March 2017	<u>677</u>

Valuation assumptions

The interest rate at which the fair value of soft loans has been calculated is 4.52%.

41. Financial instrument gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Year to 31 March 2017	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(59,653)	-	(59,653)
Interest and investment income	-	409	409
Net gain/(loss) for year	<u>(59,653)</u>	<u>409</u>	<u>(59,244)</u>

Year to 31 March 2016	Financial liabilities	Financial assets	
	Liabilities	Loans and receivables	Total
	£000	£000	£000
Interest payable and similar charges	(60,418)	-	(60,418)
Interest and investment income	-	449	449
Net gain/(loss) for year	<u>(60,418)</u>	<u>449</u>	<u>(59,969)</u>

Fair values of assets and liabilities carried at amortised cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost (in long term assets or liabilities with accrued interest in current assets or liabilities) is disclosed below.

Methods and assumptions in valuation techniques

The fair value of an instrument is determined by calculating the net present value (NPV) of future cash flows to provide an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this

will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation which ignores any motivation other than securing a fair price.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2017 using bid prices where applicable.

The calculations are made using the follow assumptions:

- For Public Works Loan Board (PWLB) debt, the discount rate used is the rate for new borrowing.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Where the exact maturity was not available interpolation techniques have been used.
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is deemed to be the invoiced or billed amount.

The fair values are as follows:

Fair value of liabilities carried at amortised cost

31/03/16			31/03/17	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
612,567	803,839	PWLB debt	618,847	1,009,969
119,940	167,611	Market long term	153,241	231,122
89,815	89,846	Temporary loans	115,110	115,080
7,200	7,200	Internal loans	5,890	5,890
<u>829,522</u>	<u>1,068,496</u>	Financial liabilities	<u>893,088</u>	<u>1,362,061</u>

Fair value exceeds the carrying amount because the Council's loan portfolio includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This reflects the likely interest premium to be paid by the Council in the event of premature repayment of these loans.

Fair value of assets carried at amortised cost

31/03/16			31/03/17	
Carrying Amount £000	Fair Value £000		Carrying amount £000	Fair value £000
41,342	41,342	Call accounts	43,542	43,546
10,061	10,071	Fixed term deposits	20,019	20,036
49,878	49,878	Long term debtors	50,886	50,886
43,186	43,186	Short term debtors	39,277	39,277
<u>144,467</u>	<u>144,477</u>	Financial assets	<u>153,724</u>	<u>153,745</u>

Fair value exceeds the carrying amount because the Council's investment portfolio includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

42. Nature and extent of risks arising from financial instruments

The activities of the Council expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Audit and Scrutiny Committee. The Council provides written principles for overall risk management as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently by Fitch with a minimum score of F1,A,B,3. The authority has a policy of not lending more than £20m of its surplus balances to one institution for a maximum period of 364 days.

2015/16			2016/17			
£000	Historical experience of non-payment adjusted for market conditions %	Bad Debt Provision £000		£000	Historical experience of non-payment adjusted for market conditions %	Bad Debt Provision £000
49,617			Deposits with Banks	58,816		
18,808	(20.405)	(3,838)	Customers	20,188	(22.855)	(4,614)
<u>68,425</u>		<u>(3,838)</u>	Total	<u>79,004</u>		<u>(4,614)</u>

The Council does not offer credit terms to customers. All trade and other payables are due to be paid on the invoice date.

Debtors

The Council does not generally have negotiable credit terms for customers as any overdue amount is payable immediately. Sundry debtors can be analysed by age as follows:

31/03/16 £000		31/03/17 £000
6,613	Less than three months	6,624
1,104	Three to six months	1,052
995	Six to twelve months	1,266
<u>6,248</u>	More than twelve months	<u>6,632</u>
<u>14,960</u>	Total	<u>15,574</u>

Market risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Statement
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not affect the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would be reflected in the Comprehensive Income and Expenditure Statement
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not affect the Balance Sheet for the majority of liabilities held at amortised cost but will have an impact on the disclosure note for fair value

The Council has a number of strategies for managing interest rate risk. The policy is to set upper limits for fixed and variable rate borrowings based on the Council's annual financing requirements. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the annual budget setting process and allows for any adverse changes to be accommodated. The strategy is based on the officers views on interest rates supplemented with leading market forecasts provided by the Council's treasury adviser and covers capital expenditure and associated borrowing, prudential indicators, the current portfolio position, prospects for interest rates, economic background, borrowing strategy, debt rescheduling and investment strategy. The analysis will also consider whether new borrowing taken out is at fixed or variable rates.

According to the assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Increase in interest payable on variable rate borrowings	1,979
Increase in interest receivable on variable rate investments	<u>(335)</u>
Impact on Income and Expenditure Account	<u>1,643</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on CI&ES or MIRS)	<u>9,522</u>

The impact of a 1% fall in interest rates would be as above but with the movements reversed.

Price risk

The Council does not invest in equity shares.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of financial liabilities is as follows:

2015/16			2016/17	
Amortised cost £000	Nominal value £000		Amortised cost £000	Nominal value £000
		Loans outstanding		
612,567	612,459	Public Works Loans Board	618,847	618,659
119,940	116,306	Market long term	153,241	149,306
89,815	89,750	Temporary loans	115,110	115,000
7,200	7,200	Internal loans	5,890	5,890
<u>829,522</u>	<u>825,715</u>	Total	<u>893,088</u>	<u>888,855</u>
		Maturity		
118,287	116,950	Less than 1 year	145,168	143,391
22,500	22,500	Between 1 and 2 years	52,826	52,826
64,779	64,779	Between 2 and 5 years	56,281	56,280
92,642	92,642	Between 5 and 10 years	112,514	112,514
531,314	528,844	More than 10 years	526,299	523,844
<u>829,522</u>	<u>825,715</u>		<u>893,088</u>	<u>888,855</u>

43. Events after Reporting Period

The unaudited Annual Accounts were issued by the Director of Finance on 29 June 2017 and the audited Annual Accounts were authorised for issue on 28 September 2017. 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 2017 the financial statements have been adjusted in all material respects.

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The major elements of expenditure on the Council housing stock and how that expenditure has been financed are included in the HRA. The totals on the HRA are included in the Comprehensive Income and Expenditure Statement.

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movement on the HRA.

2015/16 £000		2016/17 £000	£000
	Income		
(47,322)	Dwelling rents (gross)	(48,475)	
(771)	Non-dwelling rents (gross)	(776)	
<u>(1,658)</u>	Other income	<u>(1,296)</u>	
(49,751)			(50,547)
	Expenditure		
15,553	Repairs and maintenance	15,456	
9,483	Supervision and management	8,927	
1,231	Impairment of debtors	1,221	
9,052	Depreciation and impairment of non-current assets	22,257	
<u>1,685</u>	Other expenditure	<u>1,519</u>	
37,004			49,380
(12,747)	Net income from HRA services as included in Council Comprehensive Income and Expenditure Statement		(1,167)
132	HRA share of corporate and democratic core	49	
<u>400</u>	HRA share of non-distributed costs	<u>-</u>	
532			49
(12,215)	Net income from HRA services		(1,118)
620	Loss on disposal of non-current assets	1,195	
10,141	Interest payable and similar charges	10,349	
(532)	Amortisation of premiums and discounts	(524)	
(61)	Interest and investment income	(56)	
847	Pension net interest	620	
<u>(9,849)</u>	Capital Grants and contributions	<u>(9,938)</u>	
1,166			1,646
<u>(11,049)</u>	(Surplus)/Deficit on HRA services		<u>528</u>

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2015/16 £000		2016/17 £000	£000
(7,328)	Balance on HRA at 1 April 2015		(7,328)
(11,049)	(Surplus)/Deficit for the year on HRA Income and Expenditure Statement		528
	Adjustments between accounting basis and funding basis under statute		
(620)	Loss on sale of HRA non current assets	(1,195)	
4,754	Capital expenditure funded by the HRA	4,828	
(1)	Movement in employee benefits accrual	-	
4,133			3,633
	Transfer to the Capital Adjustment Account		
(9,052)	- Depreciation and impairment	(22,257)	
7,405	- repayment of debt	8,630	
9,849	- Capital grants and contributions	9,942	
8,202			(3,685)
(2,142)	HRA share of contributions to the Pensions Reserve		(1,000)
	HRA share of transfer from the Financial Instruments Adjustment Account		
532			524
324	HRA contribution to Capital Fund		-
(7,328)	Balance on HRA at 31 March 2017		(7,328)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Rent arrears

Rent arrears were as follows

31/03/16 £000		31/03/17 £000
1,679	Current tenants	1,705
1,181	Former tenants	1,312
<u>2,860</u>	Total	<u>3,017</u>

2. Uncollectable rent voids

Uncollectable rent voids of £0.878m (2015/16 £0.938m) have been netted off against rental income

3. Impairment of debtors

In 2016/17 an impairment has been provided in the Balance Sheet for irrecoverable rents as follows

31/03/16 £000		31/03/17 £000
1,987	Rent arrears	2,123
950	Sundry debts	1,288
<u>2,937</u>		<u>3,411</u>

4. Housing Stock

The Council's housing stock was as follows

31/03/16 Number	Type of House	31/03/17 Number
252	1 apartment	248
3,427	2 apartment	3,494
5,684	3 apartment	5,715
4,148	4 apartment	4,117
360	5 apartment	354
25	6 apartment	26
1	7 apartment	-
2	8 apartment	2
1	10 apartment	1
<u>13,900</u>		<u>13,957</u>

COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from Council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

2015/16 £000		2016/17 £000
131,682	Gross Council Tax levied and contributions in lieu	133,000
(11,675)	Council Tax Reduction Scheme	(11,374)
(14,924)	Other discounts and reductions	(15,088)
(3,084)	Write off of uncollectable debts and allowances for impairment	(3,091)
2,359	Adjustments for prior years Council Tax and Community Charge	2,113
104,358	Net Council Tax income per the Comprehensive Income and Expenditure Statement	105,560

Calculation of the Council Tax base 2016/17

Band	No of dwellings	No of exemptions	Disabled relief	Discounts 25%	Discounts 50%	Total dwellings	Ratio to Band D	Band D Equivalents	
A (dbr)*	-	-	42	(4)	(1)	37	5/9	21	
A	19,611	(1,135)	60	(2,364)	(332)	15,840	6/9	10,560	
B	23,134	(1,001)	35	(2,369)	(380)	19,419	7/9	15,104	
C	23,409	(796)	(6)	(2,070)	(527)	20,010	8/9	17,787	
D	18,405	(395)	51	(1,277)	(433)	16,351	9/9	16,351	
E	18,113	(299)	(96)	(962)	(420)	16,336	11/9	19,966	
F	8,878	(106)	(37)	(336)	(186)	8,213	13/9	11,863	
G	4,318	(58)	(47)	(137)	(136)	3,940	15/9	6,566	
H	323	(10)	(2)	(5)	(35)	271	18/9	542	
Total	116,191	(3,800)	0	(9,524)	(2,450)	100,417	0	98,760	
								Council Tax Reduction	(9,780)
								Contributions in lieu	156
								Provision for non- collection (2.89%)	(2,576)
								Council tax base	86,560

(1) A(dbr) – Band A properties with disabled band reduction

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Dwellings fall within a valuation band between A to H which is determined by the Assessor. The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. This value is then increased or decreased depending on the band. Based on the Council Tax base available to Highland Council the band D charge for 2016/17 was £1,163.

Properties can be exempt if they are unoccupied or occupied by certain categories of occupier.

A discount of 25% is available for properties occupied by only one liable person aged 18 years or over.

A discount of 50% is available on unoccupied properties which are either purpose built holiday homes, job related dwellings, properties undergoing major repair work to render it habitable or unfurnished for less than 12 months.

A discount of 10% is available if the property is either a second family home or occupied for short term lets.

A discount of up to 10% can be awarded for a maximum period of 12 months for long term empty properties which are furnished - After this a 200% Council Tax charge will apply.

Exemption can be awarded for up to 6 months for long term empty properties which are unfurnished. A discount of up to 10% can then be applied for a further 6 months. When the discount ends a 200% Council Tax charge will apply.

Highland Council is required to collect any domestic water and waste water charges on behalf of Scottish Water. Charges for Water & Sewerage are the responsibility of Scottish Water.

Highland Council Tax charges for 2016/17

Band A (disabled band reduction)	£646.11
Band A	£775.33
Band B	£904.56
Band C	£1,033.78
Band D	£1,163.00
Band E	£1,421.44
Band F	£1,679.89
Band G	£1,938.33
Band H	£2,326.00

NON-DOMESTIC RATE ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic rate pool

2015/16 £000		2016/17 £000
152,572	Gross rates levied and contributions in lieu	159,443
(32,104)	Reliefs and other deductions	(30,481)
(1,302)	Write-off of uncollectible debts and allowance for impairment	(1,256)
119,166	Net Non-Domestic Rate Income	127,706
(1,562)	Adjustment to previous years' national Non-Domestic rates	(605)
(210)	Non Domestic Rate Income Retained by Council (BRIS)	(371)
117,394	Contribution to Non-Domestic Rate Pool	126,730

Non-Domestic Rate Income as reported under Taxation and non-specific grant income comprises income assigned by the Scottish Government from the national non-domestic rates pool, as well as non-domestic rate income which is not submitted to the national pool but is retained by the Council.

127,403	Distribution from Non-Domestic Rate Pool	127,682
210	Non-Domestic Rate Income retained by Council (BRIS)	371
127,613	Non-Domestic Rate Income credited to Comprehensive Income and Expenditure Statement	128,053

Net Rateable Value Calculation

The amount paid for National Non-Domestic Rates (NNDR) is determined by the rateable value placed on the property by the Assessor multiplied by the rate per pound, which is determined each year by the Scottish Government. The NNDR poundage rate set by the Scottish Government for 2016/17 was 48.4p Rateable Value equal to or less than £35,000 and 51.0p Rateable Value greater than £35,000.

The Valuation (Postponement of Revaluation) (Scotland) Order 2013 postponed the date of the 2015 revaluation to 2017.

The revaluation has been completed and new rateable values will be used for billing from 1 April 2017.

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Highland Council Rateable Values

1 April 2015			1 April 2016	
Number of units	Rateable values £000		Number of units	Rateable values £000
2,655	66,914	Shops	2,652	67,071
899	19,406	Public houses and hotels	894	19,378
1,754	27,690	Offices	1,758	27,810
2,694	40,875	Industrial subjects	2,738	41,962
5,009	20,617	Leisure, entertainment, caravans and holiday sites	5,059	20,709
342	4,560	Garages and petrol stations	336	4,554
1,033	22,633	Cultural, sporting subjects, education and training	1,033	24,387
1,136	14,453	Public service subjects	1,134	14,632
2,074	92,993	Miscellaneous	2,108	96,020
17,596	310,141	Total	17,712	316,523

COMMON GOOD FUNDS ACCOUNTS

Highland Council administers the Common Good Funds of the former Burgh Councils of Inverness, Nairn, Ross and Cromarty, and Badenoch and Strathspey. The two smallest Common Good Funds, Grantown and Kingussie, are included in the following statements, but due to the size of the funds, are not listed separately. Further details are, however, available on request.

All funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established.

Accounting Policies

The Common Good accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 1 to the financial statements. In addition the Common Good fund has investment properties which are those used solely to earn rentals and for capital appreciation.

Investment property values are determined by applying IFRS13 – Fair Value Measurement. Disclosures regarding the valuation of investment properties are detailed in note 4 to the accounts. Investment properties are not depreciated but are revalued annually. Gains and losses on revaluation are recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment applies to gains and losses on disposal.

The Community Empowerment (Scotland) Act 2015 places new obligations on Councils with regards to the recording and use of Common Good assets. The Council is required to prepare and publish a register of all Common Good properties and make it publicly available. The Act also requires local authorities to publish any proposals and consult with community bodies before disposing of or changing the use of Common Good assets. To this end, a temporary Common Good Funds Officer was appointed on 13th March 2017, to develop a corporate approach to Community Empowerment legislation.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000		Gross Expenditure £000	Gross Income £000	Net Expenditure/ (Income) £000
1,770	(101)	1,669	Inverness	1,742	(80)	1,662
10	(27)	(17)	Nairn	4	(16)	(12)
46	(12)	34	Tain	30	(1)	29
15	(3)	12	Dornoch	12	-	12
2	-	2	Dingwall	7	-	7
2	-	2	Cromarty	-	-	-
2	-	2	Fortrose	3	-	3
1,847	(143)	1,704	Cost of services	1,798	(97)	1,701
		(489)	Financing and investment income and expenditure (note 2)			(1,992)
		(697)	Capital Grants and Contributions			(266)
		518	Deficit/(Surplus) on provision of services			(557)
		1,729	Deficit/(surplus) on revaluation of available for sale financial assets			(883)
		1,729	Other comprehensive income and expenditure			(883)
		2,247	Total comprehensive income and expenditure			(1,440)

MOVEMENT IN RESERVES STATEMENT 2015/16

	Revenue Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2015	7,764	3,634	2,578	29,451	43,427
Movement in reserves during 2015/16					
Total Comprehensive Income and Expenditure	(518)	(1,729)	-	-	(2,247)
Adjustments between accounting and funding basis (note 1)	(421)	-	-	421	-
Net increase/(decrease)	(939)	(1,729)	-	421	(2,247)
Balance at 31 March 2016 carried forward	<u>6,825</u>	<u>1,905</u>	<u>2,578</u>	<u>29,872</u>	<u>41,180</u>

MOVEMENT IN RESERVES STATEMENT 2016/17

	Revenue Reserves	Available for Sale Reserve	Revaluation Reserve	Capital Adjustment Account	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2016	6,825	1,905	2,578	29,872	41,180
Movement in reserves during 2016/17					
Total Comprehensive Income and Expenditure	557	883	-	-	1,440
Adjustments between accounting and funding basis (note 1)	(502)	-	-	502	-
Net increase/(decrease)	55	883	-	502	1,440
Balance at 31 March 2017	<u>6,880</u>	<u>2,788</u>	<u>2,578</u>	<u>30,374</u>	<u>42,620</u>

**COMMON GOOD FUNDS
BALANCE SHEET AS AT 31 March 2017**

31/03/16 £000		Notes	31/03/17 £000
184	Property, Plant and Equipment	4	175
2,845	Heritage Assets	4	2,870
29,395	Investment Properties	4,6	29,893
15	Intangible Assets	7	13
7,208	Investments	8	7,702
<u>39,647</u>	Long Term Assets		<u>40,653</u>
1,399	Cash and cash equivalents	9	1,999
317	Sundry debtors		270
<u>1,716</u>	Current Assets		<u>2,269</u>
<u>(183)</u>	Sundry creditors		<u>(302)</u>
<u>(183)</u>	Current Liabilities		<u>(302)</u>
1,533	Net current assets		1,967
<u>41,180</u>	Net assets		<u>42,620</u>
<u>6,825</u>	Revenue funds		<u>6,880</u>
6,825	Usable Reserves	10	6,880
2,578	Revaluation Reserve	11	2,578
29,872	Capital Adjustment Account	12	30,374
1,905	Available for Sale Reserve	13	2,788
<u>34,355</u>	Unusable Reserves		<u>35,740</u>
<u>41,180</u>	Total Reserves		<u>42,620</u>

CASH FLOW STATEMENT

31/03/16 £000		Notes	31/03/17 £000
(518)	Net surplus/(deficit) on the provision of services		557
(2,501)	Adjust net surplus/(deficit) on the provision of services for non-cash movements	15	(757)
(3,019)	Net cash outflow from operating activities		(200)
2,518	Investing activities	16	800
(501)	Net increase/(decrease) in cash and cash equivalents		600
1,900	Cash and cash equivalents at 1 April 2016		1,399
1,399	Cash and cash equivalents at 31 March 2017		1,999

NOTES TO THE COMMON GOOD FUNDS ACCOUNTS**1. Movement in Reserves Statement - Adjustment between accounting and funding basis**

2016/17	Available for Sale Asset Reserves £000	Capital Adjustment Account £000	Total 2016/17 £000
Accumulated gains on assets sold	(230)	-	(230)
Revaluation of investments	1,113	-	1,113
Realised gain/(loss) in investments	-	(12)	(12)
Revaluation of investment properties	-	(481)	(481)
Capital grants and contributions	-	266	266
Capital expenditure funded from revenue	-	739	739
Depreciation and amortisation	-	(10)	(10)
	883	502	1,385
2015/16	Available for Sale Asset Reserves £000	Capital Adjustment Account £000	Total 2015/16 £000
Accumulated gains on assets sold	(1,378)	-	(1,378)
Revaluation of investments	(351)	-	(351)
Realised gain/(loss) in investments	-	12	12
Revaluation of investment properties	-	(3,060)	(3,060)
Capital grants and contributions	-	697	697
Capital expenditure funded from revenue	-	2,782	2,782
Depreciation and amortisation	-	(10)	(10)
	(1,729)	421	(1,308)

2. Comprehensive income and expenditure statement – Financing and investment income and expenditure

2015/16 £000		2016/17 £000
(1,619)	Interest and investment income and expenditure	(454)
(2,178)	Rental income	(2,333)
248	Property costs	314
3,060	(Surplus)/deficit on revaluation of investment properties	481
(489)		(1,992)

3. Operating leases

Common Good Fund as lessor

The Common Good Fund leases out property under operating leases to generate rental income.

2015/16 £000		2016/17 £000
<u>2,178</u>	Lease income received in year	<u>2,333</u>

The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

31/03/16 £000		31/03/2017 £000
1,749	Within one year	1,783
6,212	Later than one year and not later than five years	6,356
<u>73,361</u>	Later than five years	<u>73,772</u>
<u>81,322</u>		<u>81,911</u>

4. Non-current assets

Details of the Common Good Funds non-current assets are as follows:

Movements in 2016/17

	Investment Properties £000	Heritage Assets £000	Plant and Equipment £000	Total £000
Gross book value				
As at 31 March 2016	29,395	2,845	220	32,460
Additions	979	25	-	1,004
Revaluations	(481)	-	-	(481)
As at 31 March 2017	<u>29,893</u>	<u>2,870</u>	<u>220</u>	<u>32,893</u>
Accumulated Depreciation				
As at 31 March 2016	-	-	36	36
Depreciation charge	-	-	9	9
As at 31 March 2017	<u>-</u>	<u>-</u>	<u>45</u>	<u>45</u>
Net book value				
As at 31 March 2017	<u>29,893</u>	<u>2,870</u>	<u>175</u>	<u>32,938</u>
As at 31 March 2016	<u>29,395</u>	<u>2,845</u>	<u>184</u>	<u>32,424</u>

Investment Properties – Fair Value Measurement

Valuation Techniques used to Determine Fair Values for Investment Properties

- Kenny Forbes (MRICS), Property Manager, Development and Infrastructure Service, Highland Council carried out the asset valuations of the majority of investment properties as at 31 March 2017. However, the valuation of both Inverness Town House, and 1-3 Church Street, Inverness were carried out by the District Valuer. All Common Good Fund Investment Properties have been valued in accordance with IFRS 13 – Fair Value Measurement and have been categorised at Level 2 within the Fair Value Hierarchy.
- Significant Observable Inputs – Level 2
The fair value for the investment properties has been based on the comparable method of valuation, which is a market approach using current market conditions, recent transactions and other relevant information for similar assets in the Highland Council area. The inputs are derived through market transactions of other properties actively exchanged through sales and leasing. The levels of observable inputs are tangible transactions, leading to the properties being categorised at Level 2 in the fair value hierarchy.
- Highest and Best Use of Investment Properties
In estimating the value of the Common Good Fund Investment Properties, the stated value represents their highest and best use in their current use.
- No changes in valuation methods for any of the properties have occurred.

Heritage Assets

Heritage assets relate to works of art and other movables and are included at insurance values.

5. Related Parties

During the period the Council incurred £0.083m in relation to the administration of the Common Good Funds and was subsequently reimbursed for these expenses.

Common Good properties are used for service delivery by the Council. The Council paid the Common Good Fund £0.290m in rental income.

During 2016/17 the Common Good Fund made a contribution of £0.087m to Highland Council in respect of Inverness City Arts project.

6. Investment property

The Common Good Funds own a number of properties which are held to generate rental income and for capital appreciation. These are accounted for as investment property and are held at fair value in accordance with the Code. The fair value reflects market conditions at the balance sheet date and is reviewed annually. Gains or losses arising from changes in the fair value are recognised in the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement. The consumption of economic benefits in each asset over time is reflected in the fair value of the property and therefore investment properties are not depreciated. Investment properties are leased out to third parties under operating leases. At the balance sheet date the fair value of investment properties held by each fund was as follows:

COMMON GOOD FUNDS ANNUAL ACCOUNTS 2016/17

31/03/16 £000	Investment Property at Fair Value	31/03/17 £000
	Common Good Fund	
21,669	Inverness	22,097
6,879	Nairn	6,934
266	Tain	266
155	Dornoch	170
165	Dingwall	165
112	Fortrose	112
53	Cromarty	53
96	Invergordon	96
<u>29,395</u>		<u>29,893</u>

7. Intangible assets

2015/16 £000		2016/17 £000
	Fishing Licence – Tain	
16	As at 1 April 2016	15
(1)	Amortisation	(2)
<u>15</u>	As at 31 March 2017	<u>13</u>

8. Long Term Investments

31/03/16			31/03/17	
Cost £000	Valuation £000		Cost £000	Valuation £000
<u>5,303</u>	<u>7,208</u>	Inverness - Managed portfolio	<u>4,913</u>	<u>7,702</u>

The Inverness Common Good Fund has holdings, managed by a fund manager, in various types of investments as detailed below:-

31/03/16			31/03/17		
Cost £000	Units Held	Value £000	Cost £000	Units Held	Value £000
2,731		4,599	2,618		5,323
2,153		2,190	2,074		2,158
419		419	221		221
<u>5,303</u>		<u>7,208</u>	<u>4,913</u>		<u>7,702</u>
		Total			

9. Cash and cash equivalents

31/03/16 £000		31/03/17 £000
<u>1,399</u>	Balance with Highland Council Loans Fund	<u>1,999</u>

10. Usable Reserves**Common Good Funds**

Fund	Balance at 1/04/16 £000	Movement 2016/17 £000	Balance at 31/03/17 £000
Inverness	5,498	(3)	5,495
Nairn	413	1	414
Tain	237	13	250
Dornoch	224	10	234
Dingwall	184	16	200
Fortrose	183	9	192
Cromarty	20	5	25
Invergordon	66	4	70
Total	6,825	55	6,880

11. Unusable Reserves

Fund	Revaluation Reserve	Balance at 31/03/16 and 31/03/17 £000
Inverness		2,063
Nairn		60
Tain		94
Dornoch		22
Fortrose		254
Invergordon		85
Total		2,578

12. Capital Adjustment Account

Fund	Balance at 1/04/16 £000	Revaluations 2016/17 £000	Realised Gain on Investments £000	Capital Grants £000	Capital Funded from Revenue £000	Depreciation and amortisation £000	Balance at 31/03/17 £000
Inverness	21,668	(551)	-	210	770	-	22,097
Nairn	6,891	55	(12)	-	-	-	6,934
Tain	731	-	-	56	(31)	(10)	746
Dornoch	155	15	-	-	-	-	170
Dingwall	165	-	-	-	-	-	165
Fortrose	112	-	-	-	-	-	112
Cromarty	53	-	-	-	-	-	53
Invergordon	97	-	-	-	-	-	97
Total	29,872	(481)	(12)	266	739	(10)	30,374

13. Available for Sale Reserve

2015/16 £000		2016/17 £000
3,634	Balance at 1 April 2016	1,905
(351)	Revaluation of investments	1,113
<u>(1,378)</u>	Accumulated gains on assets sold	<u>(230)</u>
<u>1,905</u>	Balance at 31 March 2017	<u>2,788</u>

14. Financial Instrument balances

Categories of Financial Instruments

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

31/03/16			31/03/17	
Long Term £000	Current £000		Long Term £000	Current £000
7,208	-	Investments	7,702	-
-	1,399	Cash	-	1,999
-	317	Debtors	-	270
-	183	Creditors	-	302

15. Cashflow statement – Adjustments for non-cash movements

2015/16 £000		2016/17 £000
	Non-cash items	
10	Depreciation and impairments	10
<u>(2,014)</u>	Revaluation of investments	<u>(933)</u>
	Items on accruals basis	
(317)	(Increase)/decrease in debtors	47
<u>(180)</u>	Increase/(decrease) in creditors	<u>119</u>
<u>(2,501)</u>		<u>(757)</u>

16. Cashflow statement – investing activities

<u>2,518</u>	Proceeds from long term investments	<u>800</u>
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17. Capital Commitments

Renovation works continue at Inverness Town House, with a further £0.738 of contracted works still to be undertaken. As in previous years this will require to be funded from the liquidation of long term investments, which will significantly reduce the existing Fund balance and reduce scope for supporting new projects in the foreseeable future.

CHARITABLE, EDUCATIONAL AND OTHER TRUST FUNDS ACCOUNTS

ACCOUNTING POLICIES

The Trust Fund accounts are prepared in accordance with the accounting policies adopted by Highland Council as detailed in note 1 to the financial statements. However, the following statements include the accounts of Highland Council Charitable Trusts and Highland Charities Trust, which have been prepared on a Receipts and Payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2017

2015/16				2016/17		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000		Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
(97)	(12)	(70)	Receipts	(56)	(14)	(82)
39	5	32	Payments	33	6	63
<u>(58)</u>	<u>(7)</u>	<u>(38)</u>	(Surplus)/deficit for the year	<u>(23)</u>	<u>(8)</u>	<u>(19)</u>

BALANCE SHEET AS AT 31 MARCH

31 March 2016		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
150	-	-
859	16	1,200
<hr/>	<hr/>	<hr/>
1,258	703	819
<hr/>	<hr/>	<hr/>
2,267	719	2,019
<hr/>	<hr/>	<hr/>
1,995	367	962
272	352	1,057
<hr/>	<hr/>	<hr/>
2,267	719	2,019
<hr/>	<hr/>	<hr/>

Non current assets

Property, plant and equipment
Investments

Current assets

Debtor - Highland Council Loans Fund

Net assets

Capital funds
Revenue funds
Total funds

31 March 2017		
Charitable Trusts £000	Educational Trusts £000	Other Trusts £000
110	-	-
860	16	1,215
<hr/>	<hr/>	<hr/>
1,281	712	838
<hr/>	<hr/>	<hr/>
2,251	728	2,053
<hr/>	<hr/>	<hr/>
1,973	368	978
278	360	1,075
<hr/>	<hr/>	<hr/>
2,251	728	2,053
<hr/>	<hr/>	<hr/>

CHARITABLE TRUSTS

Highland Council administers two registered Scottish Charities which are for the benefit of various specific causes. Annual accounts have been prepared for each of the 2 charities under the Office of the Scottish Charities Register Regulations.

At 31 March 2017 the balances and investments held are as follows:

Fund Balance £000	31 March 2016		Charity	Scottish Charity Number	31 March 2017		
	Investments at cost £000	Investments at valuation £000			Fund Balance £000	Investments at cost £000	Investments at valuation £000
185	-	3	Highland Charities Trust	044714	176	1	3
2,082	959	2,304	Highland Council Charitable Trusts	025079	2,075	959	1,929
<u>2,267</u>	<u>959</u>	<u>2,307</u>	Total Charitable Trusts		<u>2,251</u>	<u>960</u>	<u>1,932</u>

TRUST FUNDS ANNUAL ACCOUNTS 2016/17

EDUCATIONAL TRUST FUNDS

Highland Council administers 42 Educational Trust Funds which are for the benefit of the pupils educated within specific schools or areas. At 31 March 2017 the balances and investments held are as follows:

31 March 2016				31 March 2017		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
21	1	-	George Kerr Bequest	21	1	-
29	-	-	Howard Doris fund – Plockton High School	29	-	-
280	15	365	Inverness Royal Academy Educational Trust	288	15	717
134	-	-	Manson Bequest – Keiss	134	-	-
128	-	-	Manson Bequest – Nairn and Ardclach	130	-	-
13	-	-	Miss B G Angus Executory	13	-	-
114	-	-	Other Educational Trusts	113	-	-
719	16	365	Total Educational Trusts	728	16	717

OTHER TRUST FUNDS

Highland Council administers other trust funds which are for the benefit of various specific causes and are administered in accordance with the terms of the individual bequests. The balances and investments held are as follows:

31 March 2016				31 March 2017		
Fund Balance £000	Investments at cost £000	Investments at valuation £000		Fund Balance £000	Investments at cost £000	Investments at valuation £000
753	746	1,221	Inverness Burial Grounds Fund	793	763	1,447
552	454	732	Inverness Benevolent Funds	531	452	856
53	-	-	Social Work Amenity Funds	52	-	-
154	-	-	Inverness – Other Trust Funds	155	-	-
7	-	-	Badenoch and Strathspey Trust Funds	7	-	-
147	-	-	Caithness Trust Funds	146	-	-
99	-	-	Lochaber Trust Funds	109	-	-
81	-	-	Nairn Trust Funds	90	-	-
145	-	-	Ross and Cromarty Trust Funds	146	-	-
2	-	-	Skye and Lochalsh Trust Funds	2	-	-
26	-	-	Sutherland Trust Funds	22	-	-
<u>2,019</u>	<u>1,200</u>	<u>1,953</u>	Total other trust funds	<u>2,053</u>	<u>1,215</u>	<u>2,303</u>

GROUP ACCOUNTS

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices governed by International Financial Reporting Standards.

2015/16 (Restated)				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
37,004	(49,751)	(12,747)	HRA	49,429	(50,547)	(1,118)
446,383	(33,305)	413,078	Care & Learning	443,125	(38,447)	404,678
118,986	(36,609)	82,377	Community Services	117,766	(38,306)	79,460
10,729	(1,708)	9,021	Chief Executives	7,398	(1,884)	5,514
27,220	(4,562)	22,658	Corporate Development	26,595	(5,563)	21,032
52,037	(26,253)	25,784	Development & Infrastructure	42,890	(31,021)	11,869
25,880	(6,114)	19,766	Finance Service	22,253	(6,195)	16,058
54,486	(51,444)	3,042	Welfare Services	52,989	(50,315)	2,674
			Joint Board Requisitions:			
2,329	-	2,329	Highlands and Western Isles Valuation Joint Board	2,404	-	2,404
91	-	91	Highland and Islands Transport Partnership	91	-	91
			Other Income and Expenditure			
294	-	294	Operating results associates	253	-	253
<u>775,439</u>	<u>(209,746)</u>	<u>565,693</u>	Cost of Services	<u>765,193</u>	<u>(222,278)</u>	<u>542,915</u>
		3,951	Other operating expenditure			1,650
		60,045	Financing and investment income and expenditure			55,879
		<u>(612,779)</u>	Taxation and non-specific grant income			<u>(592,919)</u>
		16,910	Deficit on provision of services			7,525
		(114,890)	Surplus on revaluation of non-current assets			(25,305)
		<u>(136,197)</u>	Remeasurements of the net defined liability			<u>195,195</u>
		(251,087)	Other comprehensive income and expenditure			169,890
		<u>(234,177)</u>	Total Comprehensive Income and Expenditure			<u>177,415</u>

GROUP MOVEMENT IN RESERVES STATEMENT 2015/16

HIGHLAND COUNCIL	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2015 brought forward	42,240	7,328	2,202	1,711	2,784	30,631	86,896	902,067	988,963
Movement in reserves during 2015/16									
Total Comprehensive Expenditure and Income	(23,497)	11,049	-	-	-	-	(12,448)	247,661	235,213
Adjustments between accounting basis and funding basis under regulations	13,920	(10,725)	205	-	-	-	3,400	(3,400)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(9,577)	324	205	-	-	-	(9,048)	244,261	235,213
Transfers (to)/from other statutory reserves	(2,253)	(324)	-	(41)	(78)	(81)	(2,777)	2,777	-
Increase/(decrease) in 2015/16	(11,830)	-	205	(41)	(78)	(81)	(11,825)	247,038	235,213
Balance at 31 March 2016 carried forward	30,410	7,328	2,407	1,670	2,706	30,550	75,071	1,149,105	1,224,176

THE HIGHLAND COUNCIL GROUP ANNUAL ACCOUNTS 2016/17

This statement shows the movement in the year on the reserves held by the Group. The Total Comprehensive Expenditure and Income line shows the true economic cost of providing the group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

GROUP 2015/16 (Restated)	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2015 brought forward	988,963	37,696	(4,772)	1,021,887
Movement in reserves during 2015/16				
Total Comprehensive Expenditure and Income	235,213	(1,580)	544	234,177
Net increase/(decrease) before transfers to earmarked and other statutory reserves	235,213	(1,580)	544	234,177
Increase/(decrease) in 2015/16	235,213	(1,580)	544	234,177
Balance at 31 March 2016 carried forward	1,224,176	36,116	(4,228)	1,256,064

GROUP MOVEMENT IN RESERVES STATEMENT 2016/17

HIGHLAND COUNCIL	General Fund £000	Housing Revenue Account £000	Capital receipts reserve £000	Renewal & Repair Fund £000	Insurance Fund £000	Capital Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2016 brought forward	30,410	7,328	2,407	1,670	2,706	30,550	75,071	1,149,105	1,224,176
Movement in reserves during 2016/17									
Total Comprehensive Expenditure and Income	(7,269)	(528)	-	-	-	-	(7,797)	(161,429)	(169,226)
Adjustments between accounting basis and funding basis under regulations	3,787	528	(1,000)	-	-	-	3,315	(3,315)	-
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(3,482)	-	(1,000)	-	-	-	(4,482)	(164,744)	(169,226)
Transfers (to)/from other statutory reserves	(899)	-	-	(1)	244	(3,314)	(3,970)	3,970	-
Increase/(decrease) in 2016/17	(4,381)	-	(1,000)	(1)	244	(3,314)	(8,452)	(160,774)	(169,226)
Balance at 31 March 2017 carried forward	26,029	7,328	1,407	1,669	2,950	27,236	66,619	988,331	1,054,950

THE HIGHLAND COUNCIL GROUP ANNUAL ACCOUNTS 2016/17

GROUP 2016/17	Total Council Reserves £000	Councils share of Subsidiaries Reserves £000	Council's share of Associates Reserves £000	Total Group Reserves £000
Balance at 31 March 2016 brought forward	1,224,176	36,116	(4,298)	1,255,994
Movement in reserves during 2016/17				
Total Comprehensive Expenditure and Income	(169,226)	(5,664)	(2,525)	(177,415)
Net increase/(decrease) before transfers to earmarked and other statutory reserves	(169,226)	(5,664)	(2,525)	(177,415)
Increase/(decrease) in 2016/17	(169,226)	(5,664)	(2,525)	(177,415)
Balance at 31 March 2017 carried forward	1,054,950	30,452	(6,823)	1,078,579

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group.

31/03/16 £000 (Restated)		31/03/17 £000
2,483,119	Property, plant & equipment	2,619,608
10,659	Heritage Assets	10,659
7,832	Long term investments	8,379
(4,229)	Investments in associates and joint ventures	(6,823)
49,878	Long term debtors (net of impairment)	49,926
2,547,259	Long term assets	2,681,749
731	Short term intangibles	782
19,298	Short term investments	20,019
4,091	Inventories	4,687
44,978	Short term debtors	44,014
30,712	Cash and cash equivalents	38,811
1,210	Assets held for sale	1,194
101,020	Current assets	109,507
(117,780)	Short term borrowing	(143,498)
(108,707)	Short term creditors	(105,067)
(4,078)	Provisions	(1,962)
(13,276)	Capital Grants Receipts in Advance	(19,039)
(243,841)	Current liabilities	(269,566)
(711,235)	Long term borrowing	(748,542)
(437,139)	Other long term liabilities	(694,569)
(1,148,374)	Long term liabilities	(1,443,111)
1,256,064	Net assets	1,078,579

GROUP BALANCE SHEET (CONTINUED)

31/03/16 £000 (Restated)		31/03/17 £000	31/03/17 £000
2,407	Capital Receipts Reserve	1,407	
1,670	Renewal and Repair Fund	1,669	
30,550	Capital Fund	27,236	
2,706	Insurance Fund	2,950	
30,410	General Fund	26,029	
7,328	Housing Revenue Account	7,328	
75,071	Usable reserves		66,619
545,550	Revaluation Reserve	555,909	
952,287	Capital Adjustment Account	989,181	
(29,028)	Financial Instruments Adjustment Account	(27,109)	
(316,764)	Pensions Reserve	(530,962)	
(6,677)	Employee Statutory Adjustment Account	(9,560)	
1,145,368	Unusable reserves		977,459
35,625	Share of group and associate reserves		34,501
1,256,064	Total reserves		1,078,579

The unaudited Annual Accounts were issued on 29 June 2017 and the audited Annual Accounts were authorised for issue on 28 September 2017.

Derek Yule B.Com, FCPFA, IRRV(Hons)
 Director of Finance
 28 September 2017

GROUP CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the year. This statement shows how the group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2015/16		2016/17
£000		£000
(16,520)	Net (deficit)/surplus on the provision of services	(7,525)
134,826	Adjust net (deficit)/surplus on provision of services for non-cash movements	85,365
<u>(49,520)</u>	Adjust for items included in the net deficit or surplus on provision of services that are investing and financing activities	<u>(46,257)</u>
68,786	Net cash inflow from operating activities	31,583
(185,425)	Investing activities	(129,638)
<u>104,551</u>	Financing activities	<u>106,154</u>
(12,088)	Net increase or decrease in cash and cash equivalents	8,099
<u>42,800</u>	Cash and cash equivalents at 1 April 2016	<u>30,712</u>
<u>30,712</u>	Cash and cash equivalents at 31 March 2017	<u>38,811</u>

NOTES TO THE GROUP ACCOUNTS**1. Accounting policies**

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 46 to 57.

2. Interest in other entities

Highland Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interests in all types of entity to incorporate into group accounts.

The Council has accounted for its interest in each subsidiary by consolidating on a line by line basis. The Council's interest in each associate has been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

3. Financial impact of consolidation

By including the share of group entities (details of which are provided in note 4), the effect on the group balance sheet is an increase in net assets and reserves of £23.629m. This represents Highland Council's share of the net assets in these entities.

4. Group entities

The Group includes The Highland Council, its subsidiaries and associates as listed below:

Subsidiaries

Highland Council has a 100% interest in the following entities:

- Inverness Common Good Fund
- Nairn Common Good Fund
- High Life Highland Ltd – a charitable company limited by guarantee. Highland Council is the sole member with its liability limited to £1. The company delivers a range of community learning and leisure services on behalf of The Highland Council. It has charitable status and has one wholly owned subsidiary High Life Highland (Trading) CIC whose principal aim is to generate funds to be used by the charity in pursuit of its charitable objectives.

Results for the year	(Surplus)/deficit on provision of services £000	Net assets/liabilities £000
High Life Highland	(827)	(9,399)
Inverness Common Good	2,431	32,443
Nairn Common Good Fund	(11)	7,408
	<u>1,593</u>	<u>30,452</u>

Associates

Highland Council has interests in associates as follows:

- Highland and Western Isles Valuation Joint Board – 80%
- Highlands and Islands Transport Partnership – 37.5%

The basis for the Council's interest in Hitrans has changed to 37.5% being the Council's voting rights. This has led to an increase of £0.07m in the opening reserve balance on the balance sheet, and an increase of £0.07m in the Council's share of Associates Reserves and on the Total Group Reserves figure in the Group Movement in Reserves Statement

The joint boards have a wide range of functions to discharge. Members of each board are elected Councillors who are appointed by the Council in proportions specified in legislation.

Under accounting standards guidance, Highland Council can be seen to have significant influence over these statutory bodies, through nominated Council Member involvement in each governing board.

The financial results of the Associates for 2016/17 were as follows:

Results for the year		Deficit on provision of services £000	Net liabilities £000
Highland and Western Isles Joint Valuation Board		290	(7,959)
Highland and Islands Transport Partnership		55	(1,215)
		345	(9,174)
		345	(9,174)
Group share		Deficit on provision of services £000	Net liabilities £000
	%		
Highland and Western Isles Joint Valuation Board		232	(6,367)
Highland and Islands Transport Partnership		21	(456)
		253	(6,823)
		253	(6,823)

5. Non material interest in other entities

Highland Council also has an interest in the following entities which have not been consolidated into the Council's group accounts as the amounts are not material.

- Highland Opportunity Limited (HOL)
- Common Good Funds – Tain, Dornoch, Fortrose, Cromarty and Invergordon
- Eden Court Highlands

6. Events after the Balance Sheet date

The unaudited Annual Accounts were issued by the Director of Finance on 29 June 2017 and the audited accounts were authorised for issue on 28 September 2017. 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 2017 the financial statements have been adjusted in all material respects.

GLOSSARY OF TERMS

GLOSSARY OF TERMS

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Revenue Support Grant (RSG): this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.

Non-Domestic Rate Income (NDRI): local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and can be used to fund capital expenditure for landbanking.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Common Good Funds: Highland Council administers the Common Good Funds of the former Burgh Councils of Inverness, Nairn, Ross and Cromarty, and Badenoch and Strathspey. The two smallest Common Good Funds, Grantown and Kingussie, are included in the following statements, but due to the size of the funds, are not listed separately. Further details are, however, available on request.

All funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established.

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band D.

Council Tax Reduction Scheme (CTRS): Replaced Council Tax Benefit which stopped on 1 April 2013 as part of the welfare reform programme. CTRS is a reduction on your Council tax that you may be entitled to if you are on a low income. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term creditors, short-term borrowing and provisions.

Depreciation: the measure of the value of a fixed asset used during the year.

Equity Method: In the Group Accounts, the equity method of accounting is used to determine the Council's share of the net income generated from associate entities in proportion to the Council's investment in the associate.

Fair Value: is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

General Fund: the principal usable reserve of the Council that covers most areas of activity, the main exclusion being the Pension Fund.

Group Accounts: statements that reflect the Council's interest in any subsidiaries, associates and joint ventures.

Heritage Assets: assets preserved in trust for future generations because of their cultural, environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: The Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Fees and Charges: charges for specific service; examples include, commercial rents, hall lets and school meals.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Repair & Renewal Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account .

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: The Council administers 244 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 36 of which have charitable status and have been reorganised into 2 charities registered with the Office of the Scottish Charity Regulator (OSCR).

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.